THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Precious Dragon Technology Holdings Limited, you should at once hand this circular accompanying with the form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 30% EQUITY INTEREST IN GUANGZHOU EURO ASIA AEROSOL & HOUSEHOLD PRODUCTS MANUFACTURE CO., LIMITED*

Financial Adviser to the Company

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

Opus Capital Limited
創富融資有限公司

Capitalised terms used in this cover page shall have the same meaning as those defined in this circular.

A letter from the Board is set out on pages 6 to 22 of this circular.

A notice convening the EGM of the Company to be held at Room Gold, Level 22, Nexxus Building, 41 Connaught Road Central, Hong Kong, on Tuesday, 29 December 2020, at 2:00 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for the EGM is enclosed herein. Whether or not you intend to attend and vote in person at the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to page 1 of this circular for the measures to be implemented at the EGM by the Company against the epidemic to protect the attendees from the risk of infection of the novel coronavirus ("**COVID-19**"), including:

(i) compulsory body temperature check;

(ii) compulsory wearing of surgical face mask;

(iii) limiting attendance of the EGM in person to 100 Shareholders, with not more than 20 persons to be accommodated in each meeting room or partitioned area; and

(iv) no distribution of corporate gifts and no serving of refreshments.

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue.

For the health and safety of the Shareholders, the Company strongly advises Shareholders that you may appoint the Chairman of the meeting as your proxy to vote on the relevant resolution at the EGM as an alternative to attending the EGM in person.

* *For identification purpose only*

8 December 2020

CONTENTS

In view of the ongoing COVID-19 epidemic and recent requirements for prevention and control of its spread (as per guidelines issued by the Hong Kong government at https://www.chp.gov.hk/tc/features/102742.html), the Company will implement necessary preventive measures at the forthcoming EGM to protect attending Shareholders, proxy and other attendees from the risk of infection, including:

(i) compulsory body temperature check will be conducted on every Shareholder, proxy and other attendees at the entrance of the EGM venue and a health registration form must be filled out. Any person with a body temperature of over 37.2 degrees Celsius will be denied entry into the EGM venue or be required to leave the EGM venue;

(ii) attendees are required to prepare his/her own surgical face masks and wear the same inside the EGM venue at all times, and to maintain a safe distance between seats. Therefore, the number of seats at the EGM venue will be subject to restrictions and if necessary, the Company may restrict the number of people attending the EGM to avoid overcrowding at the venue;

(iii) attendees may be asked about matters such as whether (a) he/she has travelled outside of Hong Kong within the 14-day period immediately before the EGM; and (b) he/she is currently subject to compulsory quarantine prescribed by the Hong Kong Government. Anyone who responds to any of these questions in the affirmative may be denied entry into the EGM venue or be required to leave the EGM venue;

(iv) no corporate gifts will be distributed and no refreshments will be served; and

(v) the number of management of the Company attending the EGM in person will also be subject to restrictions. The Directors who will not attend the meeting in person will participate by video conference.

Pursuant to the amendments to the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation announced on 1 December 2020 (the "**Regulation**"), a group gathering of more than 20 persons during a shareholders' meeting of a listed company is required to be separated in different rooms or partitioned areas, each accommodating not more than 20 persons.

To comply with the Regulation and in light of the situation at the EGM venue, the Company will limit attendance of the EGM in person to 100 Shareholders, with not more than 20 persons to be accommodated in each meeting room or partitioned area.

To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all attendees' health and safety, the Company wishes to advise all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. By using proxy forms with voting instructions duly completed, Shareholders may appoint the Chairman of the EGM as their proxy to vote on the relevant resolution at the EGM as an alternative to attending the EGM in person.

If any Shareholder chooses not to attend the EGM in person but has any question about any resolution or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter to our email at clement@botny.com.

Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"Acquisition"	the proposed acquisition by the Purchaser of 30% of the issued share capital of the Target Company pursuant to the terms and conditions of the Sale and Purchase Agreement
"Announcement"	the announcement of the Company dated 4 September 2020 in relation to the Acquisition
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"China Aluminum Cans"	China Aluminum Cans Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 6898)
"Company"	Precious Dragon Technology Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on 4 May 2018, the shares of which are listed on the main board of the Stock Exchange (stock code: 1861)
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
"Completion Date"	the date of Completion
"connected person(s)"	has the same meaning ascribed to it in the Listing Rules
"Consideration"	the consideration of HK$120,000,000 for the Acquisition
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group after Completion
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of the Hong Kong

"Independent Board Committee"	an independent board committee of the Company, comprising the three independent non-executive Directors, namely Mr. Lee Yiu Pui, Mr. Poon Tak Ching and Mr. Pang Cheung Wai Thomas, formed for the purpose of advising and giving recommendation to the Independent Shareholders in respect of the Acquisition
"Independent Financial Adviser" or "Opus Capital"	Opus Capital Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Independent Shareholders"	the Shareholders, other than Mr. Lin and his associates, who are entitled to vote at the EGM in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder pursuant to the Listing Rules and all applicable laws
"Latest Practicable Date"	3 December 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Lin"	Mr. Lin Wan Tsang, the controlling Shareholder
"PRC"	the People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	China Medical Beauty Bio-Technology Company Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 4 September 2020 entered into between the Purchaser and the Vendor in relation to the Acquisition (as supplemented and amended from time to time)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	the holder(s) of the Share(s)
"Share(s)"	the ordinary share(s) of HK$0.10 each in the issued share capital of the Company

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	廣州歐亞氣霧劑與日化用品製造有限公司 (Guangzhou Euro Asia Aerosol & Household Products Manufacture Co., Limited*), a company incorporated in the PRC with limited liability and owned as to 70% and 30% by the Purchaser and the Vendor, respectively, as at the Latest Practicable Date
"US$"	United States dollars, the lawful currency of the United States of America
"Vendor"	European Asia Industrial Limited, a company incorporated in Hong Kong with limited liability and wholly-owned by Mr. Lin as at the Latest Practicable Date
"%"	per cent

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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)

Executive Directors:
Ms. Ko Sau Mee *(Chairlady and Chief Executive)*
Ms. Lin Hing Lei
Mr. Lin Hing Lung
Mr. Yang Xiaoye

Independent non-executive Directors:
Mr. Lee Yiu Pui
Mr. Poon Tak Ching
Mr. Pang Cheung Wai, Thomas, GBS, JP

Registered Office:
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

Principal place of business in Hong Kong:
Unit G, 20/F., Golden Sun Centre
Nos. 59/67 Bonham Strand West
Sheung Wan
Hong Kong

8 December 2020

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 30% EQUITY INTEREST IN GUANGZHOU EURO ASIA AEROSOL & HOUSEHOLD PRODUCTS MANUFACTURE CO., LIMITED*

INTRODUCTION

References are made to (i) the announcements of China Aluminum Cans dated 30 November 2017 and 2 February 2018 and the circular of China Aluminum Cans dated 15 December 2017, in relation to the acquisition by the Purchaser of 70% of the issued share capital of the Target Company (the "**Previous Acquisition**"); (ii) the announcements of China Aluminum Cans dated 28 September 2018, 2 April 2019, 17 May 2019 and 29 May 2019 in relation to the spin-off and separate listing of the Shares on the Main Board of the Stock Exchange (the "**Spin-off**"); and (iii) the Announcement.

* *For identification purpose only*

The Previous Acquisition

On 30 November 2017, the Purchaser, an indirect wholly-owned subsidiary of China Aluminum Cans prior to completion of the Spin-off, and the Vendor entered into a sale and purchase agreement, pursuant to which the Purchaser conditionally agreed to acquire 70% of the issued share capital of the Target Company from the Vendor at the consideration of HK$90,000,000. The Previous Acquisition was approved by the then independent shareholders of China Aluminum Cans on 10 January 2018. Upon completion of the Previous Acquisition on 29 March 2018, the Target Company became a non-wholly owned subsidiary of China Aluminum Cans.

The Spin-off

On 28 September 2018, China Aluminum Cans proposed to carry out a spin-off and separate listing of the Shares on the Main Board of the Stock Exchange by way of introduction implemented by means of a distribution in specie of the entire issued share capital of the Company owned by China Aluminum Cans to its shareholders. The Company indirectly wholly-owned the Purchaser which in turn held 70% of the issued share capital of the Target Company.

On 29 May 2019, the board of directors of China Aluminum Cans approved the Spin-off and declared a conditional distribution in specie of the entire issued share capital of the Company held by China Aluminum Cans to its shareholders whose names appear on the register of members of China Aluminum Cans on 14 June 2019.

The Spin-off was completed and the Shares were listed on the Main Board of the Stock Exchange on 21 June 2019.

The Acquisition

On 4 September 2020 (after trading hours), the Purchaser, an indirectly wholly-owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the remaining 30% of the issued share capital of the Target Company, at the Consideration of HK$120,000,000 in cash. The Company began to formulate the plan of the Acquisition at around April 2020. Since the Acquisition was not being contemplated by the Directors at the time of the Spin-off, such plan was not disclosed in the Company's prospectus dated 3 June 2019. For the factors leading to the Company's formulation of the plan of the Acquisition, please refer to the section headed "Reasons for and benefits of the Acquisition — The Directors' view — Circumstances leading to the Acquisition after listing of the Company" below.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Acquisition; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) the financial information of the Target Company; (v) a notice convening the EGM; and (vi) other information as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

Date: 4 September 2020

Parties: (i) China Medical Beauty Bio-Technology Company Limited, as the Purchaser; and

(ii) European Asia Industrial Limited, as the Vendor

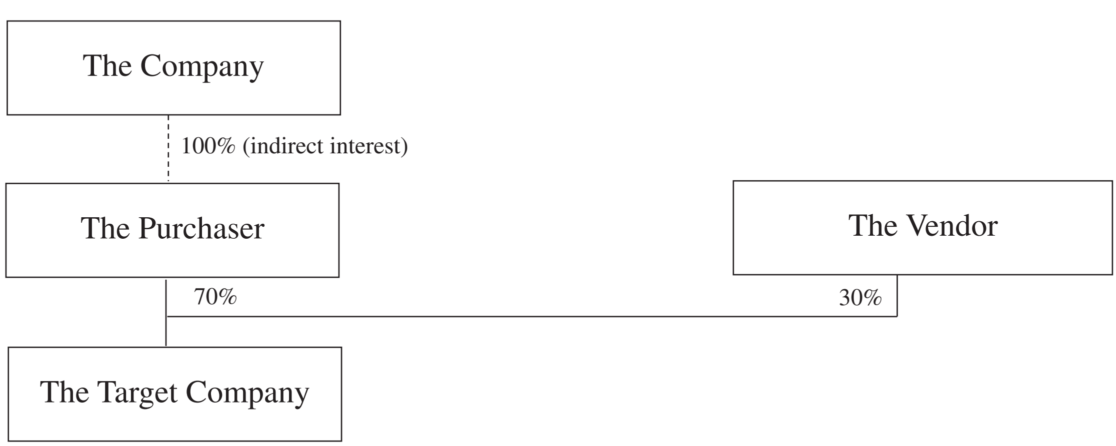
The Vendor is an investment holding and trading company and is wholly-owned by Mr. Lin, the controlling Shareholder. As a result, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules. Mr. Lin is also an executive director, the chairman and the controlling shareholder of China Aluminum Cans.

Target to be acquired

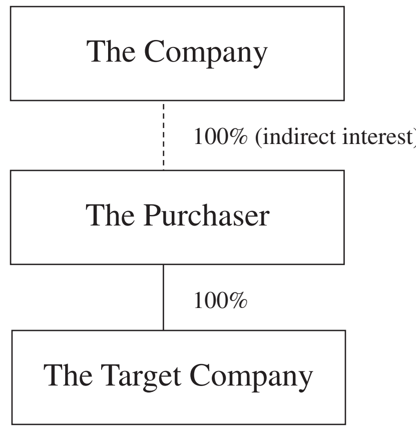
Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the remaining 30% of the issued share capital of the Target Company, free from all encumbrances and other third-party rights and with all rights and interests attaching thereto (including all dividends declared or paid after Completion, whether arising from profits before or after Completion). To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, China Aluminum Cans or the Group had no understanding or negotiation with Mr. Lin for the acquisition of such 30% interest in the Target Company in 2017 or 2018. Details of the Target Company are set out in the section headed "Information on the Target Company" below.

Set out below is a simplified shareholding structure of the Target Company (i) as at the Latest Practicable Date; and (ii) immediately upon Completion:

(i) As at the Latest Practicable Date



(ii) Immediately upon Completion



Consideration

The Consideration is HK$120,000,000, which shall be satisfied by cash on the Completion Date. The Company intends to fund the Consideration by the Group's banking facilities and/or internal resources.

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to, among other things, (i) the reasons for and benefits of the Acquisition, including the business prospect of the Target Company, as set out in the section headed "Reasons for and benefits of the Acquisition" below; (ii) the financial performance of the Target Company as set out in the section headed "Information on the Target Company" below; (iii) the price-to-earnings ("**P/E**") multiples of comparable listed companies which are principally engaged in manufacture and sale of aerosol products, hand sanitizers or personal care products (including hair and skin care products); and (iv) the market value of the land (the "**Land**") owned by the Target Company as at 30 September 2020 as appraised by Valquest Advisory (Hong Kong) Limited, an independent valuer (the "**Valuer**"), using the market approach. For details of the Land, please refer to the section headed "Information on the Target Company" below.

According to the valuation report (the "**Valuation Report**") on the Target Company as set out in Appendix V to this circular, 30% equity interest in the Target Company was valued by the Valuer at HK$151,000,000 as at 31 August 2020 (the "**Valuation**"). The Consideration of HK$120,000,000 represents a discount of approximately 20.5% to the Valuation. Coupled with the factors stated above, the Directors consider that the Consideration is fair and reasonable.

The Directors have conducted critical assessment on the Valuation Report, including the assessment on the qualifications and independence of the Valuer, and the assumptions and valuation methodologies adopted in the Valuation Report. Taking into account that (i) the Valuation was conducted by a professional third party expert, namely the Valuer who is independent of the Company and its connected persons; (ii) the Valuer expert possesses credible qualifications and experiences in conducting similar valuations; (iii) the Valuation was conducted by the Valuer using the market approach that reflects the market value of the Target Company by capturing its future earning potential, which is considered to be a fair and reasonable approach; (iv) the Valuer has considered comparable companies (the "**Comparable Companies**") which are principally engaged in businesses similar to that of the Target Company (i.e. manufacture and sale of aerosol products consisting of personal care products (including hair and skin care products) and/or hand sanitizers) and are selected by the Valuer exhaustively based on the criteria disclosed in the Valuation Report; and (v) the assumptions adopted by, and the representations made by the management of the Group and relied on by, the Valuer in the Valuation Report are general in nature and typical in valuations of the same type, the Directors consider the Valuation to be fair and reasonable.

Conditions precedent

Completion is conditional upon, among other things, the fulfilment of the following conditions:

(i) the passing by the Independent Shareholders in accordance with the Listing Rules and all applicable laws at the EGM of the resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder;

(ii) the obtaining by the Company and the Purchaser of all necessary consents, approvals and permissions from relevant organisations, institutions, government and regulatory authorities (including the Stock Exchange) in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (if applicable); and

(iii) all the representations, warranties and undertakings of the Vendor remaining true and accurate as at Completion, for which the Vendor shall have performed or complied with at or before Completion (as the case may be).

None of the above conditions can be waived. As at the Latest Practicable Date, none of the above conditions has been fulfilled.

If the above conditions have not been fulfilled by the Purchaser on or before 30 November 2020 (the "**Long Stop Date**"), the Sale and Purchase Agreement shall, subject to certain provisions of the Sale and Purchase Agreement and the liability of any party to the other in respect of any antecedent breaches of the terms of the Sale and Purchase Agreement, cease to have effect. On 3 December 2020, the Purchaser and the Vendor entered into a supplemental agreement to extend the Long Stop Date to 31 May 2021. Save as disclosed above, all other terms of the Sale and Purchase Agreement shall remain unchanged and in full force and effect.

Completion

Completion shall take place on the Completion Date when all conditions set out in the Sale and Purchase Agreement are fulfilled.

Upon Completion, the Company's equity interest in the Target Company will increase from 70% to 100%, and the financial information of the Target Company will continue to be consolidated into the financial statements of the Group.

INFORMATION ON THE GROUP

The Group is 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. The Group also designs, develops, manufactures and sells personal care products (such as hand sanitiser, foaming facial wash, sunscreen, moisturiser, deodoriser and hand wash) and other products including household products (such as paint and floor polish) through its 70% equity interest in the Target Company. The Group primarily generates its revenue from the PRC, Japan, Asia and the United States.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated on 17 April 2006 in the PRC with limited liability and is principally engaged in the design, development, manufacture and sale of aerosol products used in personal care products and other products including household products. The Target Company sells its products in the PRC and overseas markets, including the United States and Japan. The registered capital of the Target Company is US$3 million. As the Latest Practicable Date, Mr. Lin was the legal representative of the Target Company whereas Ms. Lin Hing Lei and Ms. Ko Sau Mee, the executive Directors, were the executive director and supervisor of the Target Company, respectively. After Completion, it is expected that there will not be any change to such roles and the Board and the senior management of the Group will continue to manage and operate the business of the Target Company.

Types of products manufactured by the Target Company

The Target Company's products comprise (i) personal care products, such as foaming facial wash, sunscreen, moisturizer, deodorizer, hand wash, air-freshener, hair set and keep spray and hand sanitizer; and (ii) other products including household products, such as paint and floor polish. There has been no change in the types of products sold since the Previous Acquisition. The Target Company commenced sale of sanitizer products in 2020 as part of its offering of personal care products. The products of the Target Company are primarily in the form of aerosol products.

Business model of the Target Company

The Target Company does not have its own brand and its products are sold on contract manufacturing service ("**CMS**") basis, i.e. the Target Company's products are marketed and sold under its customers' brand names. Under the CMS business model, the products of the Target Company can be manufactured on original equipment manufacturing ("**OEM**") basis or original design manufacturing ("**ODM**") basis. In the case of OEM, the Target Company manufactures its products in accordance with its customers' product formulae and specifications. In the case of ODM, the Target Company will design and provide the products formulae and specifications to its customers. The major customers of the Target Company include brand manufacturers of personal care products located in the PRC, Asia, Japan and the United States.

Production facilities of the Target Company

Currently, the Target Company conducts its operation in the factory (the "**Factory**") located at No. 628 Jufeng North Road, Aotou Town, Conghua District, Guangzhou City, Guangdong Province, the PRC (中國廣東省廣州市從化區鰲頭鎮聚豐北路628號) with a gross floor area of 1,500 square metres which is leased from the Group. The Target Company owns a piece of bare land (i.e. the Land) near the Factory with a site area of 63,623 square metres. The Land was acquired by the Target Company from the relevant governmental authority through public tender at RMB13 million in 2010. According to the ownership certificate of the Land, the Land is designated for industrial purpose. The Land was appraised by the Valuer at approximately RMB40.1 million as at 30 September 2020. For details of the valuation of the Land, please refer to Appendix VI to this circular. As at the Latest Practicable Date, the Group intended to build a production complex on the Land, which consists of warehouses and production facilities for manufacturing of cosmetic products. However, the Company has no definitive plan as to the timetable for such construction as at the Latest Practicable Date. Based on the Company's estimation, the capital investment to be required for building such production complex is expected to be no less than approximately RMB60 million. Such expected investment amount to be borne by the Group is not expected to change materially upon Completion.

Financial information of the Target Company

Set out below is the audited financial information of the Target Company for the three years ended 31 December 2019 and the six months ended 30 June 2020, which were prepared in accordance with the International Financial Reporting Standards, as extracted from Appendix II to this circular:

	For the year ended 31 December			**For the six months ended 30 June**
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Revenue	66,432	126,653	56,444	144,560
Profit before taxation	7,937	23,354	3,079	43,914
Profit after taxation	5,867	17,457	2,337	32,902

The audited net asset value of the Target Company as at 30 June 2020 was approximately HK$58.8 million. The Company and the Vendor have not made any capital contribution to the Target since completion of the Previous Acquisition in March 2018.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Background to the Acquisition

Upon completion of the Previous Acquisition on 29 March 2018, the Target Company was owned as to 70% by the Purchaser and the financial results of the Target Company were consolidated into those of China Aluminum Cans. After completion of the Spin-off on 21 June 2019, the Company, which indirectly held 70% of the issued share capital of the Target Company, was separately listed on the Main Board of the Stock Exchange. The Previous Acquisition allowed the Group to expand its product portfolio to cover personal care products which generally entail relatively high gross profit margins as compared to automotive beauty and maintenance products. The Group designs, develops, manufactures and sells personal care products through the Target Company.

Financial performance of the Target Company subsequent to the Previous Acquisition

Set out below is the revenue of the Target Company by product types and geographic locations for the three years ended 31 December 2019 and the six months ended 30 June 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sanitizer products	—	—	—	—	100,213
- Mainland China	—	—	—	—	38,715
- Japan	—	—	—	—	1,655
- Asia	—	—	—	—	59,240
- Others	—	—	—	—	603
Other personal care and household products	**66,432**	**126,653**	**56,444**	**38,159**	**44,347**
- Mainland China	44,051	95,372	53,161	37,165	32,113
- Japan	1,544	113	—	—	—
- Asia	20,837	5,147	2,308	—	2,461
- America	—	26,002	975	994	9,773
- Others	—	19	—	—	—
Total	**66,432**	**126,653**	**56,444**	**38,159**	**144,560**

For the three years ended 31 December 2019 and the six months ended 30 June 2020, revenue generated by the Target Company amounted to approximately HK$66.4 million, HK$126.7 million, HK$56.4 million and HK$144.6 million, representing approximately 12.8%, 20.7%, 10.1% and 42.0% of the Group's total revenue, respectively. The number of customers, from which the Target Company generated revenue, was 63, 68, 59 and 206 for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively.

The significant increase for the year ended 31 December 2018 indicated an increasing demand for personal care products. In June 2018, in view of the growth in the sales of personal care products, the Group installed a new dyadic packaging production line for the production of personal care products. The Target Company recorded a net profit of approximately HK$17.5 million for the year ended 31 December 2018, representing an increase of approximately 197.5%, from approximately HK$5.9 million in the previous year.

The significant decrease for the year ended 31 December 2019 was mainly due to the significant drop in sales to customers located in the PRC and the United States caused by the Sino-US trade war. Accordingly, the Target Company recorded a net profit of approximately HK$2.3 million for the year ended 31 December 2019, as compared to approximately HK$17.5 million in the previous year.

For the six months ended 30 June 2020, as a result of the development of a series of new sanitizer products to meet the increasing demand under the COVID-19 pandemic, revenue of the Target Company increased remarkably by approximately 278.8% to approximately HK$144.6 million, as compared to the corresponding period in 2019, representing approximately 42.0% of the Group's total revenue.

After completion of the Previous Acquisition on 29 March 2018, the Target Company recorded a remarkable growth in revenue and net profit for the year ended 31 December 2018. Despite a significant drop in revenue and net profit for the year ended 31 December 2019, the Target Company recorded growth in revenue from both sanitizer products and other personal care and household products for the six months ended 30 June 2020. Sale of other personal care and household products (excluding sanitizer products) were approximately HK$44.3 million for the six months ended 30 June 2020, representing an increase of approximately 16.2% as compared to the corresponding period in 2019. Based on the revenue for the six months ended 30 June 2020, the annualised sales of other personal care and household products (excluding sanitizer products) would amount to approximately HK$88.7 million, representing an increase of approximately 57.1% as compared to the previous year. The Directors expects such growth can be sustained in the second half of 2020. In particular, sales of other personal care and household products (excluding sanitizer products) generated from the PRC were approximately HK$32.1 million for the six months ended 30 June 2020. This translates into an annualised sales of approximately HK$64.2 million, representing an increase of approximately 20.8% as compared to the previous year. The impact of the Sino-US trade war on the Target Company's sales to the United States was also lessened for the six months ended 30 June 2020 as revenue derived from the United States has increased significantly from approximately HK$1.0 million for the six months ended 30 June 2019 to approximately HK$9.8 million for the six months ended 30 June 2020.

Industry outlook

For the three years ended 31 December 2019 and the six months ended 30 June 2020, the Target Company generated a majority of its revenue from the PRC market. The cosmetics market in the PRC, which generally covers personal care products including skin care and hair care products according to the definition of the National Bureau of Statistics of China, has been growing at a fast pace in tandem with the rapid development of the PRC economy in recent years. According to the National Bureau of Statistics of China, retail sales of cosmetic products by wholesale and retail enterprises above designated size increased from approximately RMB182.5 billion in 2014 to approximately RMB299.2 billion in 2019, representing a compound annual growth rate of approximately 10.4%. There is a growth potential in the cosmetic market in the PRC. Although the retail market has been adversely affected by the outbreak of the novel coronavirus since early 2020, the Directors believe that the pandemic will be under effective control in the second half of 2020 as supported by the declining number of confirmed COVID-19 cases in the PRC and the estimated recovery of the PRC economic growth from approximately 1.9% in 2020 to approximately 8.2% in 2021, according to the latest projection of International Monetary Fund ("**IMF**") in October 2020.

Currently, the main market of the Target Company's sanitizer products is in the PRC, Japan and Asia. According to a report summary (the "**Report Summary**") issued by Grand View Research Inc. ("**Grand View**") in April 2020, the global hand sanitizer market size was valued at USD2.7 billion in 2019 and is expected to grow at a compound annual growth rate ("**CAGR**") of 22.6% from 2020 to 2027. Shifting consumer preference towards convenient hygiene products is expected to drive the market. In addition, the recent COVID-19 pandemic at the beginning of 2020 has spurred the market for hand sanitizer. The outbreak has reinforced the significance of regular hand sanitizing and cleaning practices among consumers and is the prominent factor driving the market. The research in the Report Summary has covered the regions of North America, Europe, Asia Pacific, Central and South America, Middle East and Africa. The Report Summary was obtained online and was not commissioned by the Company. Despite the declining number of confirmed COVID-19 cases in the PRC, taking into account (i) sanitizer use is now being treated as a major preventive measure to avoid spread of communicable diseases; and (ii) growing consumer preference on health and wellness as well as rising awareness about health and hygiene, the Directors consider that there is growth potential in the sanitizer product market which forms part of the Group's personal care product segment.

Grand View is an India- and United States-based market research and consulting company headquartered in San Francisco, which provides syndicated research reports, customised research reports and consulting services. According to the website of Grand View (the "**Website**"), its database is used by academic institutions around the world and Fortune 500 companies to understand the global and regional business environment, with statistics and analysis covering 46 industries in 25 major countries worldwide. As disclosed in the Website, Grand View collects and obtains market data from, among other things, a number of reputed paid databases, suppliers, distributors, buyers, surveys, technical symposia and trade journals. Market estimates and forecasts are derived by feeding relevant information into simulation models with the help of correlation, regression and time series analysis, which are supported by industry experience and domain expertise. Parameters being considered by Grand View for forecasting include market drivers and restrains (along with their current and expected impact), supply and price trends as well as current and expected capacity additions. As the final step, primary interviews are conducted by Grand View with market participants across the value chain to validate its findings and assumptions used to obtain them. On the above basis, the Directors consider that the market statistics compiled by Grand View are based on authenticated sources and are validated through a vigorous process. As such, the Board is of the view that it can make reference to the statistics in the Report Summary in substantiating the growth potential of sanitizer products.

The Directors' view

Circumstances leading to the Acquisition after listing of the Company

At the time when the Previous Acquisition was proposed in November 2017, the Target Company was in an initial stage of development with a net profit of approximately RMB5.4 million for the nine months ended 30 September 2017 as compared to a net loss of approximately RMB2.8 million for the year ended 31 December 2015. Having considered the following factors, on balance, that (i) China Aluminum Cans could take advantage of the discount to the then independent valuation of the Target Company in acquiring 70% equity interest in the Target Company when the Target Company was still under an early stage of development; (ii) through the Previous Acquisition, China Aluminum Cans could diversify its existing business portfolio into the personal care market with growth potential, broadening its source of income; (iii) an adequate assessment period was considered appropriate to appraise the performance of the Target Company before obtaining the entire equity interest in the Target Company; and (iv) the acquisition of additional 30% equity interest in the Target Company would further increase the gearing of China Aluminum Cans and reduce banking facilities otherwise available for other working capital requirements, the acquisition of the entire issued share capital of the Target Company was not considered in 2017 or 2018.

After completion of the Previous Acquisition in March 2018, the Target Company achieved a notable year-on-year growth in both revenue and net profit by approximately 90.7% and 197.5%, respectively, for the year ended 31 December 2018. Although the financial performance of the Target Company was adversely affected by the drop in sales to customers located in the PRC and the United States caused by the Sino-US trade war for the year ended 31 December 2019, the impact was alleviated in the first half of 2020 as evidenced by the increase in revenue generated from the United States. Accordingly, the Board does not foresee the Sino-US trade tensions will have a material adverse impact on the results of the Target Company after the first half of 2020. Despite the outbreak of the novel coronavirus which significantly dampened consumer sentiment, the Target Company achieved remarkable growth in both revenue and net profit for the six months ended 30 June 2020. While the global economy has been adversely affected by the pandemic since early 2020, governments around the world have swiftly rolled out fiscal packages and relief measures to preserve vitality of their economies, support affected industries and relieve people's financial burdens. IMF projected in October 2020 that the global economy will contract by approximately 4.4% in 2020 but rebound sharply to approximately 5.2% in 2021 after the pandemic fades. While the PRC economy is projected to grow slightly by approximately 1.9% in 2020, it will bounce to approximately 8.2% in 2021, according to IMF's forecast. The impact of the pandemic is therefore considered temporary and will not persist for a very long period of time. On balance of the factors above, the Directors consider that the prospect of the Target Company will be generally positive in the long run. This is especially the case when the novel coronavirus infection is well contained and the Sino-US trade tensions are not significantly re-escalated. Against this backdrop, the Company has formulated the plan for the Acquisition.

Assessment of the Consideration

The Consideration is determined with reference to an independent valuation of the Target Company as at 31 August 2020 (i.e. the Valuation) conducted by the Valuer using the market approach, taking into account the P/E multiples of an exhaustive list of the Comparable Companies principally engaged in manufacture and sale of aerosol products, hand sanitizers or personal care products (including hair and skin care products). As advised by the Valuer, other than the Target Company, the Company also owns an automotive beauty and maintenance product business and other assets and liabilities. Although the Company may partially represent the Target Company, it is understood that companies are different in various aspects even among comparable companies. Accordingly, the consideration of a collective group of companies is important in forming the average market value expectation for a valuation exercise. Besides, as the Company meets all the selection criteria set out in the Valuation Report, it is included as one of the Comparable Companies.

In assessing the fairness and reasonableness of the Consideration, the Directors have considered three commonly used valuation methodologies, namely P/E multiples, price-to-book ("**P/B**") multiples, price-to-sale ("**P/S**") multiples. The Directors consider that it is not appropriate to use P/B multiples as the value of the Target Company depends on its earnings but not its asset base. P/S multiple is not considered to be appropriate as it primarily bases on revenue and cannot reflect cost of goods sold, expenses, finance costs and taxes.

The Directors have determined P/E multiples to be most appropriate in determining the value of the Target Company. Given (i) the usage of P/E multiples is widely adopted under the market approach; (ii) the relevance of using P/E multiples given the Target Company has been profitable for the three years ended 31 December 2019 and for the six months ended 30 June 2020; and (iii) following discussions with the Valuer as to the rationale for using P/E multiples, the Board concurs with the Valuer and the Independent Financial Adviser that the usage of P/E multiples is a more appropriate approach in determining the Consideration as compared to using P/B multiples and P/S multiples.

As set out in the Valuation Report, the Valuer considers the P/E multiple of approximately 14.70 times (the "**Selected P/E**") is appropriate in valuing the Target Company, based on the analysis of the Comparable Companies.

The Directors are of the view that the selected Comparable Companies are appropriate given that they are principally engaged in the same sector as the Target Company does, being manufacture and sale of aerosol products including personal care products or hand sanitizers, which are identified on an exhaustive basis. As a cross-check, in addition to the Comparable Companies, the Directors have also considered an exhaustive list of comparable transactions (the "**Comparable Transactions**") in assessing the Consideration, which involves acquisitions of companies principally engaged in manufacture and sale of personal care products, cosmetics products and/or sanitizer-related products in the PRC since 2015. Based on the aforesaid criteria, 12 Comparable Transactions were identified. The P/E multiples (excluding all outliers) implied by the Comparable Transactions ranged from approximately 13.12 times to approximately 34.74 times with an average and median of approximately 21.45 times and 17.02 times, respectively. The Selected P/E of approximately 14.70

times is within the aforesaid range and is lower than the average and median of those of the Comparable Transactions (excluding all outliers). As such, the results of the analysis of the Comparable Transactions are consistent with those of the Comparable Companies selected by the Valuer.

The Directors consider the Consideration to be fair and reasonable after taking into account the followings as a whole:

(i) the Consideration represents a discount of approximately 20.5% to the Valuation;

(ii) the Valuation has taken into account the unaudited net profit of the Target Company for the twelve months ended 31 August 2020 of approximately RMB32.6 million which (a) represented the latest financial performance of the Target Company on a full year basis under the current market condition; (b) spanned across 2019 and 2020 taking into account the financial performance of the Target Company in the last four months of 2019 without solely relying on the financial performance of the Target Company in the first eight months of 2020; (c) reflected the growth of the Target Company's sales of personal care and other products (excluding sanitizer products) in 2020 from 2019; and (d) incorporated the Target Company's expansion into the sanitizer product market;

(iii) the remarkable growth in revenue and profit of the Target Company for the year ended 31 December 2018 and for the six months ended 30 June 2020 after completion of the Previous Acquisition in March 2018, with the number of customers rising from 63 for the year ended 31 December 2017 to 206 for the six months ended 30 June 2020;

(iv) although the Target Company recorded a general decrease in revenue generated from the PRC, Asia and the United States for the year ended 31 December 2019, the Target Company recorded a growth in revenue from sales of personal care and other products (excluding sanitizer products) of approximately 16.2% for the six months ended 30 June 2020 as compared to the corresponding period in 2019, notwithstanding the COVID-19 outbreak. Based on the revenue for the six months ended 30 June 2020, the annualised sales of personal care and other products (excluding sanitizer products) would amount to approximately HK$88.7 million, representing an increase of approximately 57.1% as compared to the previous year;

(v) the impact of the Sino-US trade tensions, which affected the financial performance of the Target Company for the year ended 31 December 2019, was alleviated in the first half of 2020 given the increase in revenue generated from the United States from approximately HK$1.0 million for the six months ended 30 June 2019 to approximately HK$9.8 million for the six months ended 30 June 2020;

(vi) although the Target Company's sale of sanitizer products in the first half of 2020 was boosted by the COVID-19 outbreak since early 2020, the Directors consider that the market demand for sanitizer products in the future will continue to be maintained and driven by the growing consumer preference on health and wellness as well as rising awareness about health and hygiene as the COVID-19 pandemic has reinforced the significance of regular hand sanitizing and cleaning practices among consumers;

(vii) although the Directors consider that 2020 would be a difficult year for the Group as disclosed in the annual report of the Company for the year ended 31 December 2019 due to (a) the uncertainty in the global economic environment; (b) the soft landing of growth in consumable products and domestic demands in both automotive beauty products and personal care products in the PRC caused by the COVID-19 outbreak; (c) the volatile fluctuation of RMB against USD; and (d) the increasing competition from small-sized competitors, the Group was able to adjust its strategies in a timely manner by developing a series of new sanitizer products with its research and development capabilities to meet the demands under the COVID-19 pandemic and record a growth in sales of both sanitizer and other personal care products in the first half of 2020. Notwithstanding the decrease in revenue from Asia from approximately HK$5.1 million in 2018 to approximately HK$2.3 million in 2019, revenue generated from Asia rebounded to approximately HK$2.5 million in the first half of 2020. As stated in the interim report of the Company for the six months ended 30 June 2020, the Group is still optimistic towards the PRC market and considers that the economic foundation of the PRC market will keep stable in the long run despite the economic slowdown caused by the COVID-19 pandemic. IMF also estimates that the PRC economic growth will rebound significantly from approximately 1.9% in 2020 to approximately 8.2% in 2021;

(viii) the prospects of the cosmetics market in the PRC and the global sanitizer product market as set out in the paragraph headed “Industry outlook” above;

(ix) the Directors consider that the substantial increase in consideration for the acquisition of 30% equity interest in the Target Company from that for the acquisition of 70% equity interest in the Target Company in 2018 was justified by the factors stated in paragraphs (i) to (viii) above;

(x) the Directors consider that the increase in the Target Company’s trade receivables, current liabilities and gearing ratio as at 30 June 2020 was to accommodate the significant business growth of the Target Company in the first half of 2020. As at the Latest Practicable Date, approximately 96% of the trade receivables as at 30 June 2020 was settled. The impairment loss on trade receivables of the Target Company of approximately HK$3.0 million for the six months ended 30 June 2020 was also considered immaterial by the Directors as compared to the revenue of the Target Company as a whole; and

(xi) the largest customer and the five largest customers of the Target Company’s sanitizer products accounted for approximately 59.1% and 74.9% of total sales of sanitizer products, respectively. The Board is of the view that the customers’ concentration risk of the Target Company is manageable, in view of the promising growth in revenue and profit of the Target Company after completion of the Previous Acquisition, coupled with the rising number of total customers of the Target Company from the year ended 31 December 2017 to the six months ended 30 June 2020. Given the growth potential of the cosmetics market in the PRC and the global hand sanitizer market as set out in the paragraph headed “Industry outlook” above, the Board considers the potential impact to the Target Company is not material if there is any change to such customers.

Reasons for and benefits of the Acquisition

Taking into account (i) that the Target Company has been an important contributor to the Group's revenue and profit; (ii) the significant growth in revenue of the Target Company from approximately HK$66.4 million for the year ended 31 December 2017 to approximately HK$144.6 million for the six months ended 30 June 2020, representing a CAGR of approximately 36.5%; (iii) the rising number of customers of the Target Company from 63 for the year ended 31 December 2017 to 206 for the six months ended 30 June 2020; and (iv) the market potential of the Group's new sanitizer products, the Directors consider that the Acquisition represents an opportunity for the Group to further consolidate its interest in the Target Company so as to capture the potential growth of the Target Company in full.

Although the Company has not encountered major difficulties in its implementation plan from the Vendor since completion of the Previous Acquisition, the Acquisition gives the Group greater flexibility for implementing integration strategies to release the full potential and value of the Target Company's business and contributes to the cash flow and profitability of the Group should the Target Company continue to perform in future. Currently, the Target Company is indirectly held as to 30% by Mr. Lin, the controlling Shareholder, and is a connected person of the Company. Any transaction between the Target Company and other members of the Group will therefore constitute connected transactions for the Company under Chapter 14A of the Listing Rules. Through the Acquisition, the Group can integrate its resources, including procurement capability, production capacity, workforce and financial resources, with those of the Target Company without giving rise to continuing connected transactions for the Company which might potentially cause undue administrative inconvenience to the Company, hamper the ability of the Company to respond quickly to changes in market conditions and restrict the potential growth of the Group.

On the above basis, the Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

The Previous Acquisition was completed on 29 March 2018. Since then and up to completion of the Spin-off, China Aluminum Cans held 70% of the issued share capital of the Target Company and the financial information of the Target Company was consolidated into the financial statements of China Aluminum Cans. After completion of the Spin-off and upon Completion, the Company's equity interest in the Target Company will increase from 70% to 100%, and the financial information of the Target Company will continue to be consolidated into the financial statements of the Group.

According to the unaudited pro forma financial information of the Group as at 30 June 2020 as set out in Appendix III to this circular, assuming Completion took place on 30 June 2020, the 30% non-controlling interests of the Target Company amounting to approximately HK$10,973,000 would be derecognised and transferred to the equity attributable to the Shareholder. In other words, the Company would no longer share any profit or loss of the Target Company to the non-controlling shareholder upon Completion. While there would be an increase in liabilities of HK$120,000,000 for the settlement of the consideration for the Acquisition and therefore a decrease in total equity, total assets and other liabilities would remain unchanged given that the assets and liabilities of the Target Company have already been consolidated into the financial statements of the Group prior to Completion.

Taking into account (i) the significant growth in revenue and net profit of the Target Company from the year ended 31 December 2017 to the six months ended 30 June 2020; (ii) the business prospect of the Target Company, in particular the rapid growth of the global hand sanitizer market driven by the rising awareness on health and hygiene caused by the outbreak of the novel coronavirus since early 2020, as set out in the section headed "Reasons for and benefits of the Acquisition — Industry Outlook" above; (iii) that the Group would be able to fully consolidate the entire interest of the Target Company and therefore entitled to 100% of the net profit and cash flow of the Target Company upon Completion; and (iv) that the Consideration represents a significant discount of approximately 20.5% to the Valuation as at 31 August 2020, the Directors consider the increase in liabilities and therefore the decrease in total equity upon Completion to be justifiable.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Vendor is wholly-owned by Mr. Lin, the controlling Shareholder, the Vendor is regarded as a connected person of the Company. As such, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Sale and Purchase Agreement and the transactions contemplated thereunder are therefore subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Lin has a material interest in the Acquisition, he and his associates shall abstain from voting at the EGM. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, apart from Mr. Lin and his associates, which are interested in approximately 74.84% of the issued share capital of the Company, no other Shareholder has a material interest in the Acquisition which is different from the other Shareholders, and is required to abstain from voting in respect of the Acquisition at the EGM under the Listing Rules.

Given that Ms. Ko Sau Mee, Ms. Lin Hing Lei and Mr. Lin Hing Lung are the spouse, daughter and son of Mr. Lin respectively, each of Ms. Ko Sau Mee, Ms. Lin Hing Lei and Mr. Lin Hing Lung had abstained from voting on the resolution of the Board to approve the Acquisition and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors had material interests in the Acquisition and the transactions contemplated thereunder and accordingly, no other Director was required to abstain from voting on the resolution at the Board meeting held to approve the Acquisition and the transactions contemplated thereunder.

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Lee Yiu Pui, Mr. Poon Tak Ching and Mr. Pang Cheung Wai Thomas, has been established by the Company to provide a recommendation to the Independent Shareholders in respect of the Acquisition. Opus Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

The EGM will be held at Room Gold, Level 22, Nexxus Building, 41 Connaught Road Central, Hong Kong on Tuesday, 29 December 2020 at 2:00 p.m. to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM or any adjournment thereof, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 23 and 24 of this circular which contains its recommendation to the Independent Shareholders in relation to the Acquisition.

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 25 to 57 of this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the principal factors and reasons taken into account in arriving at its recommendation.

The Directors consider that the terms of the Sale and Purchase Agreement are determined after arm's length negotiations between the parties and on normal commercial terms. The Directors also consider that the terms of the Sale and Purchase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the board of
Precious Dragon Technology Holdings Limited
Ko Sau Mee
Chairlady and Executive Director

The following is the text of a letter of advice from the Independent Board Committee, prepared for the purpose of inclusion in this circular, setting out its recommendation to the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder:

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)

8 December 2020

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 30% EQUITY INTEREST IN GUANGZHOU EURO ASIA AEROSOL & HOUSEHOLD PRODUCTS MANUFACTURE CO., LIMITED*

We refer to the circular of the Company dated 8 December 2020 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. Opus Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 25 to 57 of this circular. Your attention is also drawn to the "Letter from the Board" in this circular and the additional information set out in the appendices thereto.

Having considered the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder and taking into account the advice of the Independent Financial Adviser, in particular the principal factors, reasons and recommendations as set out in their letter, we consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the

* *For identification purpose only*

Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
the Independent Board Committee

Mr. Lee Yiu Pui **Mr. Poon Tak Ching** **Mr. Pang Cheung Wai Thomas**
Independent Non-executive Directors

Set out below is the text of a letter from Opus Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition for the purpose of inclusion in this circular.

Opus Capital Limited
創富融資有限公司

18th Floor, Fung House
19-20 Connaught Road Central
Central, Hong Kong

8 December 2020

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 30% EQUITY INTEREST IN GUANGZHOU EURO ASIA AEROSOL & HOUSEHOLD PRODUCTS MANUFACTURE CO., LIMITED*

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms and conditions the Acquisition, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 8 December 2020 (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 4 September 2020 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, 30% of the issued share capital of the Target Company, at the Consideration of HK$120,000,000 in cash.

Upon Completion, the Purchaser's equity interest in the Target Company will increase from 70% to 100%, and the financial information of the Target Company will continue to be consolidated into the financial statements of the Group.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, as the Vendor is wholly-owned by Mr. Lin, the controlling Shareholder, it is regarded as a connected person of the Company under the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Acquisition is therefore subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder. As Mr. Lin has a material interest in the Acquisition, he and his associates shall abstain from voting at the EGM in respect of the Acquisition. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, apart from Mr. Lin and his associates, which are interested in approximately 74.84% of the issued share capital of the Company, no other Shareholder has a material interest in the Acquisition which is different from the other Shareholders, and is required to abstain from voting in respect of the Acquisition at the EGM under the Listing Rules.

Given that Ms. Ko Sau Mee, Ms. Lin Hing Lei and Mr. Lin Hing Lung are the spouse, daughter and son of Mr. Lin respectively, each of Ms. Ko Sau Mee, Ms. Lin Hing Lei and Mr. Lin Hing Lung had abstained from voting on the resolution of the Board to approve the Acquisition and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors had material interests in the Acquisition and the transactions contemplated thereunder and accordingly, no other Director was required to abstain from voting on the resolution at the Board meeting held to approve the Acquisition and the transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprises Mr. Lee Yiu Pui, Mr. Poon Tak Ching and Mr. Pang Cheung Wai Thomas, being all the independent non-executive Directors, has been formed to consider whether the terms and conditions of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms, are entered into in the ordinary and usual course of business of the Group, are in the interests of the Group and the Shareholders as a whole, and to make recommendations to the Independent Shareholders in respect of the voting on the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. Opus Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

We were appointed as the independent financial adviser to advise the independent board committee and the independent shareholders of China Aluminum Cans, the former parent company of the Company for which Mr. Lin is its controlling shareholder, in respect of: (i) a set of continuing connected transactions under the master supply agreement entered into between the Company and China Aluminum Cans on 17 April 2019; and (ii) a connected transaction in relation to the proposed amendments to the terms and conditions of a convertible note due in 2020 issued by China Aluminum

Cans to Mr. Lin pursuant to a deed of amendments entered into between China Aluminum Cans and Mr. Lin on 24 March 2020 (the "**Past Appointments**"), details of these two transactions and our independent advisory letter are set out in the circulars of China Aluminum Cans dated 9 May 2019 and 9 April 2020 respectively. Such transactions are independent of the Acquisition.

As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, Mr. Lin or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal independent financial advisory fee paid or payable to us in connection with the Past Appointments and this appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Group, Mr. Lin or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

(i) the Company's annual report (the "**2019 Annual Report**") for the year ended 31 December ("**FY**") 2019 published on 8 April 2020;

(ii) the Company's interim report (the "**2020 Interim Report**") for the six months ended 30 June ("**1H**") 2020 published on 31 August 2020;

(iii) the accountants' report of the Target Company (the "**Accountants' Report**") for FY2017, FY2018, FY2019 and 1H2020 as set out in Appendix II to the Circular;

(iv) the unaudited pro forma financial information (the "**Pro Forma Financial Information**") of the Group as set out in Appendix III to the Circular;

(v) the business valuation report issued by Valquest Advisory (Hong Kong) Limited (the "**Independent Valuer**") in respect of the valuation of the 30% equity interest in the Target Company as at 31 August 2020 (the "**Business Valuation**") as set out in Appendix V to the Circular (the "**Business Valuation Report**");

(vi) the property valuation report issued by the Independent Valuer in respect of the valuation of a piece of industrial land owned by the Target Company situated at No. 628 Jufeng North Road, Aotou Town, Conghua District, Guangzhou City (the "**Land**") as at 30 September 2020 (the "**Property Valuation**") as set out in Appendix VI to the Circular (the "**Property Valuation Report**");

(vii) the Sale and Purchase Agreement; and

(viii) other information as set out in the Circular.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Group (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of the transactions contemplated under the Sale and Purchase Agreement, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into consideration, inter alia, the following principal factors and reasons:

1. Background information of the Group

The Group was spun off from China Aluminum Cans and separately listed on the Main Board of the Stock Exchange (the "**Spin-off**") on 21 June 2019. The Group is the leading manufacturer specializing in manufacturing of aerosol products used in the automotive beauty and maintenance products in the PRC. The Group is 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. The Group also designs, develops, manufactures and sells 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) through its 70% equity interest in the Target Company. The Group primarily generates its revenue from the PRC, Japan, other countries in Asia and the United States.

The following tables summarise the consolidated financial information of the Group for FY2018, FY2019, 1H2019 and 1H2020 as extracted from the 2019 Annual Report and the 2020 Interim Report:

Table 1: Summarized financial results of the Group

	1H2020	**1H2019**	**FY2019**	**FY2018**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*
Revenue	344,091	287,409	561,535	610,864
- *Automotive beauty and maintenance products*	200,563	250,735	506,549	484,944
- *Personal care products*	143,528	36,674	54,986	125,920
Gross profit	124,114	82,624	164,173	157,560
Gross profit margin (%)	*36.1*	*28.7*	*29.2*	*25.8*
Profit attributable to the Shareholders for the year/period	29,918	17,633	37,412	41,686

Sources: the 2019 Annual Report and the 2020 Interim Report

FY2019

The Group recorded a decline in the revenue of approximately 8.1%, from approximately HK$610.9 million for FY2018 to approximately HK$561.5 million for FY2019. The revenue generated from the personal care products business operated under the Target Company was approximately HK$55.0 million for FY2019, representing a substantial reduction of approximately 56.3% as compared to that for FY2018. Such decrease was mainly due to the significant decline in sales to customers located in the PRC and the United States which caused by the uncertainties of Sino-US trade war. The decrease in the revenue was partially offset by the slight increase of approximately 4.5% in the revenue generated from the automotive beauty and maintenance products business which was due to the implementation of sales strategy by the Group to enhance the recognition of brands. Due to the decrease in crude oil price during FY2019, the cost of procurement of solvents, being major raw materials for the production, declined and led to the slight increase in the gross profit margin from approximately 25.8% for FY2018 to approximately 29.2% for FY2019.

The Group's net profit attributable to the Shareholder amounted to approximately HK$37.4 million for FY2019, representing a decrease of approximately 10.3% as compared to approximately HK$41.7 million for FY2018. As explained in the 2019 Annual Report, such decrease in the net profit was mainly due to (i) the increase in the selling and distribution expenses; and (ii) the listing expenses.

1H2020

During 1H2020, the Group recorded an increase in the revenue of approximately HK$56.7 million or 19.7% during 1H2020 as compared of that of 1H2019. Such increase was mainly contributed by the substantial increase in the revenue generated from the overseas customers of approximately 101.8%, from approximately HK$66.9 million for 1H2019 to approximately HK$135.0 million for 1H2020, attributable to the development of new sanitizer products to meet the increasing demand under COVID-19 pandemic (the "**Pandemic**"). The sales revenue attributable to export of new sanitizer products was recorded under the revenue generated from the personal care products business operated under the Target Company. The gross profit for 1H2020 was approximately HK$124.1 million, which increased significantly by approximately 50.2% as compared to that for 1H2019. The increase in gross profit was mainly driven by sale of products with higher gross profit margins and decreasing in the cost of procurement of solvents, being major raw materials for the relevant production. The gross profit margin of the Group increased from approximately 28.7% for 1H2019 to approximately 36.1% for 1H2020. The net profit attributable to the Shareholders increased significantly from approximately HK$17.6 million for 1H2019 to approximately HK$29.9 million for 1H2020, representing a significant increase of approximately 69.9%.

As at 30 June 2020, the total assets of the Group amounted to approximately HK$472.6 million, representing an increase of approximately 12.0% or HK$50.5 million as compared to that as at 31 December 2019. The increase in total assets was mainly due to, among others, an increase in the trade and bill receivables of approximately HK$60.2 million during 1H2020, incurred by the increase in sale of sanitizer products. As at 30 June 2020, the assets of the Group mainly comprised of, among others, property, plant and equipment of approximately HK$123.6 million, cash and cash equivalents of approximately HK$100.9 million and trade and bills receivables of approximately HK$90.5 million. The total liabilities of the Group were approximately HK$164.2 million as at 30 June 2020, representing an increase of approximately 13.7% or approximately HK$19.8 million as compared to approximately HK$144.4 million as at 31 December 2019. The increase in the liabilities of the Group was primarily attributable to, among others, the increase in in trade and bills payable of approximately HK$9.1 million and tax payable of approximately HK$7.0 million. The increase in the trade and bills payable was attributable to the development of new sanitizer products which required additional procurement of raw materials for production.

The equity attributable to the Shareholders increased from approximately HK$275.5 million as at 31 December 2019 to approximately HK$297.5 million as at 30 June 2020. 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 the Shareholders) increased from approximately -7.9% as at 31 December 2019 to approximately 8.5% as at 30 June 2020. We also noted that the current ratio of the Group decreased slightly from approximately 1.93 times as at 31 December 2019 to approximately 1.72 times as at 30 June 2020. Such decline was mainly due to the new interest-bearing bank and other borrowings of the Target Company amounted to approximately HK$20.9 million.

2. Background information of the Target Company

The Target Company is a company established on 17 April 2006 in the PRC with limited liability and is principally engaged in the design, development, manufacture and sale of aerosol products used in personal care products and other products including household products. The Target Company sells its products in the PRC and overseas markets, including the United States and Japan. The registered capital of the Target Company is US$3 million. As the Latest Practicable Date, Mr. Lin was the legal representative of the Target Company whereas Ms. Lin Hing Lei and Ms. Ko Sau Mee, the executive Directors, were the executive director and superior of the Target Company, respectively. After Completion, it is expected that there will not be any change to such roles and the Board and the senior management of the Group will continue to manage and operate the business of the Target Company.

On 30 November 2017, the Purchaser, an indirect wholly-owned subsidiary of China Aluminum Cans prior to completion of the Spin-off, and the Vendor entered into a sale and purchase agreement, pursuant to which the Purchaser conditionally agreed to acquire 70% of the issued share capital of the Target Company from the Vendor at the consideration of HK$90,000,000. The acquisition by the Purchaser of 70% of the issued share capital of the Target Company (the "**Previous Acquisition**") was approved by the then independent shareholders of China Aluminum Cans on 10 January 2018. Upon completion of the Previous Acquisition on 29 March 2018, the Target Company became a non-wholly owned subsidiary of China Aluminum Cans through the Purchaser. Further details of the Previous Acquisition are detailed in the circular of China Aluminum Cans dated 15 December 2017. The Company (which included, among others, the Target Company and the Purchaser) were later spun off from China Aluminum Cans as part of the Spin-off. As at the Latest Practicable Date, the Company indirectly wholly-owned the Purchaser which in turn held 70% of the issued share capital of the Target Company.

Types of products manufactured by the Target Company

The products of the Target Company comprise (i) personal care products, such as foaming facial wash, sunscreen, moisturizer, deodorizer, hand wash, air-freshener, hair set and keep spray and hand sanitizer; and (ii) other products including household products, such as paint and floor polish. There has been no change in the types of products sold since the Previous Acquisition. The Target Company commenced sale of sanitizer products in 2020 as part of its offering of personal care products. The products of the Target Company are primarily in the form of aerosol products.

Business model of the Target Company

The Target Company does not have its own brand and its products are sold on contract manufacturing service ("**CMS**") basis, i.e. the Target Company's products are marketed and sold under its customers' brand names. Under the CMS business model, the products of the Target Company can be manufactured on original equipment manufacturing ("**OEM**") basis or original design manufacturing ("**ODM**") basis. In the case of OEM, the Target Company manufactures its products in accordance with its customers' product formulae and specifications. In the case of ODM, the Target Company will design and provide the products formulae and specifications to its customers. The major customers of the Target Company include brand manufacturers of personal care products located in the PRC, Asia, Japan and the United States.

Production facilities of the Target Company

Currently, the Target Company conducts its operation in the factory (the "**Factory**") located at No.628 North Jufeng Road, Aotou Town, Conghua District, Guangzhou City, Guangdong Province, the PRC (中國廣東省廣州市從化區鰲頭鎮聚豐北路628號) with a gross floor area of 1,500 square metres which is leased from the Group. The Target Company owns the Land near the Factory with a site area of 63,623 square metres. The Land was acquired by the Target Company from the relevant governmental authority through public tender at RMB13 million in 2010. According to the ownership certificate of the Land, the Land is designated for industrial purpose. With reference to the Property Valuation Report as set out in Appendix VI to the Circular, the Land was appraised by the Independent Valuer at approximately RMB40.1 million as at 30 September 2020 (i.e. the Property Valuation). As at the Latest Practicable Date, the Group intended to build a production complex on the Land, which consists of warehouses and production facilities for manufacturing of cosmetic products. However, the Company has no definitive plan as to the timetable for such construction as at the Latest Practicable Date. Based on the Company's estimation, the capital investment to be required for building such production complex is expected to be no less than approximately RMB60 million. As advised by the Management, such expected investment amount to be borne by the Group is not expected to change materially upon Completion.

Financial information of the Target Company

The following tables are the summarized financial information of the Target Company for FY2018, FY2019, 1H2019 and 1H2020 as extracted from the Accountants' Report:

Table 2: Summarized financial results of the Target Company

	1H2020	**1H2019**	**FY2019**	**FY2018**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	(Audited)	*(Unaudited)*	*(Audited)*	*(Audited)*
Revenue	144,560	38,159	56,444	126,653
Cost of sales	(89,153)	(26,716)	(41,614)	(91,315)
Gross profit	55,407	11,443	14,830	35,338
Gross profit %	*38.3*	*30.0*	*26.3*	*27.9*
Other income and gains	1,053	322	466	868
Selling and distribution expenses	(3,048)	(2,365)	(3,815)	(2,126)
Administrative expenses	(5,221)	(3,656)	(5,377)	(7,565)
Research and development expenses	(162)	(1,431)	(2,281)	(991)
Impairment losses on financial assets, net	(3,003)	(1,196)	(512)	(831)
Other expenses	(989)	(434)	(196)	(1,206)
Finance costs	(123)	(19)	(36)	(133)

	1H2020	1H2019	FY2019	FY2018
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	(Audited)	*(Unaudited)*	*(Audited)*	*(Audited)*
Profit before tax	43,914	2,664	3,079	23,354
Income tax expense	(11,012)	(654)	(742)	(5,897)
Profit attributable to the shareholders of the Target Company for the year/period	32,902	2,010	2,337	17,457

Source: the Accountants' Report

FY2019

The revenue of the Target Company was approximately HK$56.4 million for FY2019, declined significantly by approximately 55.5% when compared to approximately HK$126.7 million for FY2018. As advised by the Management, such decline was mainly due to the Sino-US trade war which led to the slump in the export sales of personal care products. The total amount of the products exported to the United States declined by approximately HK$25.0 million or 96.3% during FY2019 when compared to that for FY2018. The gross profit of the Target Company correspondingly dropped by approximately 58.0% or HK$20.5 million during FY2019. During FY2019, the research and development expenses increased significantly by approximately HK$1.3 million or 130.2% as compared to that for FY2018, such increase was mainly due to the expenses incurred for the development of the personal care products. The Target Company also recorded an increase in the selling and distribution expenses of approximately HK$1.7 million or 79.4% as compared to that for FY2018 due the incurred exhibition costs and promotional expenses for business development. As a result of the above, the net profit attributable to the shareholders of the Target Company was approximately HK$2.3 million for FY2019, representing a significant decline of approximately 86.6% or HK$15.1 million as compared to that for FY2018.

1H2020

The revenue of the Target Company amounted to approximately HK$144.6 million for 1H2020, representing a significant growth of approximately 278.8% as compared to that for 1H2019. As advised by the Company, since the beginning of the Pandemic, the global demand for the sanitizer products has increased rapidly. The Target Company adapted swiftly to cater for the upsurge in market demand and developed a series of new sanitizer products while shifting its target customers from the United States to the Asia Pacific region. The success in business development in the products pipeline and market diversification contributed to the significant increase in the revenue of the Target Company during 1H2020. In addition, sale of other personal care and household products (excluding sanitizer products) remained strong which recorded approximately HK$44.3 million for 1H2020, representing an increase of approximately 16.2% as compared to the corresponding period in 2019. The impact of the Sino-US trade war on the Target Company's sales to the United States was also lessened for 1H2020 as revenue derived from the United States has increased significantly from approximately HK$1.0 million for the 1H2019 to approximately HK$9.8 million for 1H2020. During 1H2020, the net profit attributable to the shareholders of the Target Company was approximately HK$32.9 million, which represented a surge by a factor of over 15 as compared to that for 1H2019.

Sustainability of earnings of the Target Company

For FY2017, FY2018, FY2019 and 1H2020, revenue generated by the Target Company amounted to approximately HK$66.4 million, HK$126.7 million, HK$56.4 million and HK$144.6 million, representing approximately 12.8%, 20.7%, 10.1% and 42.0% of the Group's total revenue, respectively. On the other hand, for FY2017, FY2018, FY2019 and 1H2020, the net profit generated by the Target Company amounted to approximately HK$5.9 million, HK$17.5 million, HK$2.3 million and HK$32.9 million, representing approximately 14.4%, 37.3%, 6.0% and 82.9% of the Group's net profit, respectively. For the corresponding periods/years of FY2017, FY2018, FY2019 and 1H2020, the number of customers was 63, 68, 59 and 206, respectively. As advised by the Management, the substantial spike in the number of customers during 1H2020 was due to the significant demand of the sanitizer products brought about by the Pandemic and the fact that sanitizer products have a broader customer appeal as compared to traditional personal care products.

We noted that the earnings of the Target Company were volatile in recent years but the Management seemed to be able to turnaround the business of the Target Company under adverse market conditions and to achieve upward trending profits for the Target Company. Due to the increasing demand for personal care products and the installation of a new dyadic packaging production line, the Target Company's net profit for FY2018 was approximately HK$17.5 million, representing a significant increase by almost 200% as compared to FY2017. During FY2019, the net profit of the Target Company dropped significantly as it experienced a significant drop in sales to customers located in the PRC and the United States caused by the Sino-US trade war. For FY2019, the Target Company recorded a net profit of approximately HK$2.3 million, which was a significant scale-back from that of FY2018. However, the Management seemed to have reacted swiftly to introduce a range of new sanitizer products to meet the increasing demand under the Pandemic with the revenue and net profit of the Target Company during 1H2020 increased by approximately 278.8% and over 15 times, respectively, as compared to that for 1H2019 to approximately HK$144.6 million and HK$32.9 million. Explained in the Letter from the Board, although the financial performance of the Target Company was adversely affected by the drop in sales to customers located in the PRC and the United States caused by the Sino-US trade war for FY2019, the impact was alleviated in the 1H2020 as evidenced by the increase in revenue generated from the United States. Accordingly, the Board does not foresee the Sino-US trade tensions will have a material adverse impact on the results of the Target Company after 1H2020. Despite outbreak of the Pandemic which significantly dampened consumer sentiment, the Target Company achieved remarkable growth in both revenue (in terms of both personal care products and hand sanitizers) and net profit for 1H2020. While the global economy has been adversely affected by the pandemic since early 2020, governments around the world have swiftly rolled out fiscal packages and relief measures to preserve vitality of their economies, support affected industries and relieve people's financial burdens.

Given the past earnings volatility of the Target Company and the fact that the Business Valuation was appraised based on the trailing 12 months normalized net profit of the Target Company as of 31 August 2020 (i.e. from 1 September 2019 to 31 August 2020) (the "**TTM Net Profit**") of approximately HK$32.6 million which has arguably incorporated the recent favourable financial performance of the Target Company, we consider it worthwhile to assess the sustainability of the TTM Net Profit. In order to appraise the sustainability of the TTM Net Profit, we need to be satisfied with the historical earnings' quality of the Target Company and one of the ways to examine the quality of the earnings is through the review of the corresponding trade receivables. We noted the trade receivables of the Target Company as at 30 June 2020 increased by approximately 10 times as compared to that as at 31 December 2020 (the "**AR Subsequent Period**"). We have reviewed the list of trade receivables of the Target Company as at 30 June 2020 and examined the corresponding settlement status of the relevant trade receivables between July 2020 and September 2020 and noted that approximately 88.3% of the trade receivables of the Target Company as at 30 June 2020 were settled during the AR Subsequent Period. We have randomly sampled and checked the bank receipts which accounted for approximately 93.2% of the total settlement amount of the trade receivables during the AR Subsequent Period. Next, we obtained and examined a list of the secured orders (i.e. purchase orders received but have not yet been processed and delivered) which was received by the Target Company subsequent to 30 June 2020 with a total estimated revenue of more than HK$50 million. We have randomly sampled and checked the purchase orders which accounted for approximately 51.5% of the total estimated revenue. As discussed with the Management, the Target Company has been proactively developing new customers for its personal care products and is currently in advanced discussions with two major personal health and consumer goods multinational corporations (the "**Strategic MNC Customers**") with an aim to enter into strategic co-operation agreements with them to secure long-term sizeable orders which can amount to substantial annual sales revenue for the Target Company. We have gathered from the Management the correspondences between the Target Company and the Strategic MNC Customers regarding trail production runs, an important step normally required prior to the issue of any serious long-term purchase orders. Furthermore, as discussed above, the number of customers of the Target Company increased significantly from 63 for FY2017 to 206 for 1H2020. Lastly, as set out in the Accountants' Report, over 92% of the revenue of the Target Company during 1H2020 was contributed by the sales to the customers in the Asia Pacific region which can effectively shield the Target Company from the negative impacts of the Sino-US trade war which made the Target Company suffered during FY2019. Based on the above, we took comfort in and consider the TTM Net Profit to be fair and reasonable as far as the Independent Shareholders are concerned.

Table 3: Financial position of the Target Company

	As at 30 June 2020 *(HK$'000)* *(Audited)*	As at 31 December 2019 *(HK$'000)* *(Audited)*
Non-current assets		
Property, plant and equipment	7,296	7,239
Right-of-use assets	8,475	8,840
Deferred tax assets	1,332	459
Non-current prepayments	909	493
Non-current assets subtotal	**18,012**	**17,031**
Current assets		
Inventories	15,831	6,700
Trade receivables	61,314	6,018
Prepayments, deposits and other receivables	2,510	579
Cash and cash equivalents	14,461	8,136
Current assets subtotal	**94,116**	**21,433**
Non-current liabilities		
Interest-bearing bank and other borrowings	314	421
Non-current liabilities subtotal	**314**	**421**
Current liabilities		
Trade payables	8,011	3,127
Other payables and accruals	17,673	4,905
Interest-bearing bank and other borrowings	21,098	196
Tax payable	6,249	369
Current liabilities subtotal	**53,031**	**8,597**
Equity attributable to the shareholders of the Target Company	**58,783**	**29,446**

Source: the Accountants' Report

As at 30 June 2020, the total assets of the Target Company were approximately HK$112.1 million, representing a gain of approximately HK$73.6 million or 191.1% as compared to that as at 31 December 2019. The significant increase in the total assets was primarily attributable to, among others, (i) the gain in the trade receivables of approximately HK$55.3 million; the increase in the inventory of approximately HK$9.1 million; and (iii) the increase in the cash and cash equivalents of approximately HK$6.3 million, as a result of the success in the business development to cater the increasing demand of sanitizer products.

As at 30 June 2020, the total liabilities of the Target Company were approximately HK$53.3 million, representing an increase of approximately HK$44.3 million or 492.2% as compared to that as at 31 December 2019. Such increase was mainly attributable to (i) the increase in other payables and accruals of approximately HK$12.8 million which was incurred by the increasing procurement of raw materials for the new sanitizer products; and (ii) the increase in interest-bearing bank and other borrowings of approximately HK$20.9 million which was mainly due to reservation of sufficient working capital for the potential increase in the sales and production cost.

The equity attributable to the shareholders of the Target Company increased by approximately 100.0%, from approximately HK$29.4 million as at 31 December 2019 to approximately HK$58.8 million as at 30 June 2020. As stated in the Letter from the Board, the Company and the Vendor have not made any capital contribution to the Target since completion of the Previous Acquisition in March 2018.

3. Reasons for and benefits of the Acquisition

Background to the Acquisition

Upon completion of the Previous Acquisition on 29 March 2018, the Target Company was owned as to 70% by the Purchaser and the financial results of the Target Company were consolidated into those of China Aluminum Cans. After completion of the Spin-off on 21 June 2019, the Company, which indirectly held 70% of the issued share capital of the Target Company, was separately listed on the Main Board of the Stock Exchange. The Previous Acquisition enabled the Group to expand its product portfolio to cover personal care products which generally entail relatively high gross profit margins as compared to automotive beauty and maintenance products. The Group designs, develops, manufactures and sells personal care products through the Target Company.

Industry outlook

As set out in the Letter from the Board, for FY2017, FY2018, FY2019 and 1H2020, the Target Company generated a majority of its revenue from the PRC market. The cosmetic market in the PRC, which generally covers personal care products including skin care and hair care products according to the definition of the National Bureau of Statistics of China, has been growing at a fast pace in tandem with the rapid development of the PRC economy in recent years. According to the National Bureau of Statistic of the PRC, retail sales of cosmetic products by wholesale and retail enterprises above designated size increased from approximately RMB182.5 billion in 2014 to approximately RMB299.2 billion in 2019, representing a compound annual growth rate ("**CAGR**") of approximately 10.4% indicating market potentials.

As set out in the Letter from the Board and based on our discussion with the Management, currently, the key markets of the Target Company's sanitizer products are in the PRC, Japan and Asia (primarily Hong Kong). We took reference of a report summary (the "**GV Report Summary**") quoted in the Letter from the Board which was issued by Grand View Research Inc. ("**Grand View**") in April 2020, the global hand sanitizer market size was valued at approximately US$2.7 billion in 2019 and is expected to grow at a CAGR of approximately 22.6% from 2020 to 2027. According to the GV Report Summary, shifting consumer preference towards convenient hygiene products is expected to drive the market. In addition, the Pandemic began at the beginning of 2020 is catalyst for the hand sanitizer market, which reinforced the significance of regular hand sanitizing and cleaning practices among consumers and is the prominent factor driving the market. The research in the GV Report Summary provided a useful reference of the growth potential of the global hand sanitizer market which forms and is looking to form a substantial part of the Group's personal care product segment.

As stated in the Letter from the Board, we note that Grand View is an India- and United States-based market research and consulting company headquartered in San Francisco, which provides syndicated research reports, customized research reports and consulting services. We understand the GV Report Summary is not commissioned by the Group and/or the Target Company and we do not note any independence issue regarding Grand View. According to the website of Grand View (website: https://www.grandviewresearch.com) (the "**GV Website**"), its database is used by academic institutions around the world and Fortune 500 companies to understand the global and regional business environment, with statistics and analysis covering 46 industries in 25 major countries worldwide. We have visited and browsed the GV Website and noted that well-known international news media institutions also made citations of the research reports issued by Grand View suggesting acceptable research standards and reputation. We understand the GV Report Summary covers globally so the Asia Pacific region, being the key markets of the Target Company's sanitizer products, were well covered by the GV Report Summary which is relevant and applicable to the Target Company. Last but not least, we have obtained and reviewed a copy of the GV Report Summary and verified the relevant statistics quoted by the Company as set out in the Letter from the Board.

We have also conducted our own research on the sanitizer industry. Based on a report summary (the "**IP Report Summary**") issued in March 2020 by the Insight Partners, a leading global market research firm with global clients across various industries, the hand sanitizer market in Asia Pacific is projected to grow at a CAGR of approximately 43.6% from 2019 to 2027 and the PRC currently holds the largest share of the hand sanitizer market in Asia Pacific. The report further stated that the demand for hand sanitizer is expanding in the PRC as a result of the growing concerns related to health and hygiene. The projected rate of growth of hand sanitizer market in Asia Pacific is almost doubled of that of the global market. Based on the GV Report Summary issued by Grand View forecasting the global hand sanitizer market size is expected to grow at CAGR of approximately 22.6% from 2020 to 2027 and the IP Report Summary issued by the Insight Partners forecasting that the hand sanitizer market in Asia Pacific is projected to grow at a CAGR of approximately 43.6% from 2019 to 2027 and the prominent mark share of the PRC, we concur with the Directors' view that despite the declining number of confirmed Pandemic cases in the PRC, taking into account (i) sanitizer use is now being treated as a major preventive measure to avoid spread of communicable diseases; and (ii) growing consumer preference on health and wellness as well as rising awareness about health and hygiene, there is growth potential in the sanitizer product market which forms part of the Group's personal care product segment.

On a separate note, although the Directors consider that FY2020 would be a difficult year for the Group as disclosed in the 2019 Annual Report due to (a) the uncertainty in the global economic environment; (b) the soft landing of growth in consumable products and domestic demands in both automotive beauty products and personal care products in the PRC caused by the Pandemic; (c) the volatile fluctuation of RMB against US$; and (d) the increasing competition from small-sized competitors, as disclosed in the Letter from the Board, the Group was able to adjust its strategies in a timely manner by developing a series of new sanitizer products with its research and development capabilities to meet the demands under the Pandemic and record a growth in sale of both sanitizer and other personal care products in the 1H2020. Notwithstanding the decrease in revenue from the personal care products segment from Asia from approximately HK$5.1 million in FY2018 to approximately HK$2.3 million in FY2019, revenue generated from Asia on the same segment has rebounded to approximately HK$2.5 million in the 1H2020. The impact of the Sino-US trade tensions, which significantly affected the financial performance of the Target Company for FY2019, was alleviated in 1H2020 given the increase in revenue generated from the United States from approximately HK$1.0 million for 1H2019 to approximately HK$9.8 million for 1H2020. We have noted from the 2020 Interim Report that the Group is still optimistic towards the PRC market and considers that the economic foundation of the PRC market will remain stable in a long run despite the economic slowdown caused by the Pandemic. Regardless of how the Management might have expressed its pessimism about the financial performance of the Group for FY2020, given the above and in particular, the recent strong turnaround of the actual financial performance of the Target Group for 1H2020 in the midst of the Pandemic and the forecasted growth rates of the sanitizer markets as set out in the abovementioned GV Report Summary and IP Report Summary, we are of the view that the future prospects and sustainability of the Target Company when the Pandemic is over remain to be cautiously positive.

As discussed in the section headed "2. Background information of the Target Company" above, in order to cater for the upsurge in the market demand, the Target Company adapted swiftly and developed a series of new sanitizer products while shifting its target customers from the United States to the Asia Pacific region. Such transformation has contributed to the significant increase in both revenue and profit of the Target Company for 1H2020.

Although the Company has not encountered major difficulties in its implementation plan from the Vendor since completion of the Previous Acquisition, the Acquisition gives the Group greater flexibility for implementing integration strategies to release the full potential and value of the Target Company's business and contributes to the cash flow and profitability of the Group should the Target Company continue to perform in the future. Currently, the Target Company is indirectly held as to 30% by Mr. Lin, the controlling shareholder of the Company, and is a connected person of the Company. Any transaction between the Target Company and other members of the Group will therefore constitute connected transactions for the Company under Chapter 14A of the Listing Rules. Through the Acquisition, the Group can integrate its resources, including procurement capability, production capacity, workforce and financial resources, with those of the Target Company without giving rise to continuing connected transactions for the Company which might potentially cause undue administrative inconvenience to the Company, hamper the ability of the Company to respond quickly to changes in market conditions and restrict the potential growth of the Group.

We understood from the Management that, except for certain de minimis transactions under Rule 14A.76(c) of the Listing Rules, the Group has avoided to enter into continuing connected transactions with the Target Company since the Previous Acquisition due to the abovementioned reasons. Based on our discussion with the Management, we understood that there could be various benefits for the Group to enter into the certain continuing transactions with the Target Company should the remaining 30% equity interest of the Target Company be acquired by the Company under the Acquisition. First of all, currently, the procurement of the raw materials of other members of the Group and the Target Company are conducted separately and the Management believes that if the procurement for raw materials for the production of aerosol products was to be centralized upon Completion, the Group will have more bargaining power during business negotiations with suppliers and any inter-company connected transactions due to such centralized procurement can be avoided. Secondly, since the Target Company manufactures similar aerosol products as that of the Group and is geographically situated nearby other members of the Group, and in times the Target Company may experience significant production demand so that it may seek additional production facilities and human resources from other members of the Group to accommodate for such demand, the sharing of production facilities and human resources between wholly-owned entities of the Group upon Completion can eliminate the relevant continuing connected transactions stemming from such sharing of resources and promote flexibility in the production capacity management. Such arrangement can also have the added benefit of being able to consolidate and streamline labour forces so redundant staff resources can be eliminated as a result. Thirdly, we understand in the past certain customers have expressed their preference to place purchase orders directly with Hong Kong or overseas incorporated entities of the Group instead of the PRC incorporated Target Company as these customers tend to favour the trading currencies and legal frameworks offered by these jurisdictions but such requests have not been met as the creation of continuing connected transactions through inter-company transactions deterred these customers and redirected them to deal directly with the Target Company. Last but not least, we understood from the Management that the trade financing cost in the PRC is generally higher than that in Hong Kong so it also makes commercial sense for the Group to direct their trades to Hong Kong instead of the PRC to lower its trade financing cost. Once again, Completion will eliminate such concerns and will offer customers of the Group with more choices and flexibility with whom they want to deal with and save financing costs for the Group. Taking into the account the above considerations, we concur with the Directors' view that the Acquisition represents an opportunity for the Group to further consolidate its interest in the Target Company which gives the Group greater flexibility in its operations.

Based on the above, we concur with the Directors' view that the Acquisition represents an opportunity for the Group to further consolidate its interest in the Target Company so as to capture the potential growth of the Target Company in full.

4. Principal terms of the Sale and Purchase Agreement

The principal terms of the Sale and Purchase Agreement are summarized as follows:

Date : 4 September 2020

Parties : (i) China Medical Beauty Bio-Technology Company Limited, as the Purchaser; and

(ii) European Asia Industrial Limited, as the Vendor

The Vendor is an investment holding and trading company and is wholly-owned by Mr. Lin, the controlling Shareholder. As a result, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules. Mr. Lin is also an executive director, the chairman and the controlling shareholder of China Aluminum Cans.

Target to be acquired

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the remaining 30% of the issued share capital of the Target Company, free from all encumbrances and other third-party rights and with all rights and interests attaching thereto (including all dividends declared or paid after Completion, whether arising from profits before or after Completion).

Consideration

The Consideration is HK$120,000,000, which shall be satisfied by cash on the Completion Date. The Company intends to fund the Consideration by the Group's banking facilities and/or internal resources.

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to, among other things, (i) the reasons for and benefits of the Acquisition, including the business prospect of the Target Company, as set out in the section headed "Reasons for and benefits of the Acquisition" in the Circular; (ii) the financial performance of the Target Company; (iii) the price-to-earnings multiples of comparable listed companies which are principally engaged in manufacture and sale of aerosol products, hand sanitizers or personal care products (including hair and skin care products); and (iv) the market value of the Land owned by the Target Company as at 30 September 2020 as appraised by the Independent Valuer, using the market approach.

According to the Business Valuation Report as set out in Appendix V to the Circular, 30% equity interest in the Target Company was valued by the Independent Valuer at HK$151,000,000 (the "**Appraised Value**") as at 31 August 2020. The Consideration of HK$120,000,000 represents a discount of approximately 20.5% to the Appraised Value. Independent Shareholders' attention is drawn to the paragraph headed "Consideration" under the section headed "The Sale and Purchase Agreement" in the Letter from the Board regarding how the Directors, after having conducted a critical assessment on the Business Valuation Report, consider that the Business Valuation to be fair and reasonable.

Conditions precedent

Completion is conditional upon, among other things, the fulfilment of the following conditions:

(i) the passing by the Independent Shareholders in accordance with the Listing Rules and all applicable laws at the EGM of the resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder;

(ii) the obtaining by the Company and the Purchaser of all necessary consents, approvals and permissions from relevant organizations, institutions, government and regulatory authorities (including the Stock Exchange) in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (if applicable); and

(iii) all the representations, warranties and undertakings of the Vendor remaining true and accurate as at Completion, for which the Vendor shall have performed or complied with at or before Completion (as the case may be).

None of the above conditions can be waived. As at the Latest Practicable Date, none of the above conditions has been fulfilled.

If the above conditions have not been fulfilled by the Purchaser on or before 30 November 2020 (the "**Long Stop Date**"), the Sale and Purchase Agreement shall, subject to certain provisions of the Sale and Purchase Agreement and the liability of any party to the other in respect of any antecedent breaches of the terms of the Sale and Purchase Agreement, cease to have effect. On 3 December 2020, the Purchaser and the Vendor entered into a supplemental agreement to extend the Long Stop Date to 31 May 2021. Save as disclosed above, all other terms of the Sale and Purchase Agreement shall remain unchanged and in full force and effect.

Completion

Completion shall take place on the Completion Date when all conditions set out in the Sale and Purchase Agreement are fulfilled.

Upon Completion, the Company's equity interest in the Target Company will increase from 70% to 100%, and the financial information of the Target Company will continue to be consolidated into the financial statements of the Group.

5. Assessment of the Business Valuation

Introduction

Independent Shareholders' attention is drawn to the appraised value of the 30% equity interest in the Target Company (including the appraised value of the Land which was appraised under the Property Valuation) at 31 August 2020 of HK$151,000,000 (i.e. the Appraised Value) as set out in the Business Valuation Report enclosed in Appendix V to the Circular. The Consideration of HK$120,000,000 at a discount of approximately 20.5% to the Appraised Value of HK$151,000,000.

Suitability of the Independent Valuer

We have reviewed the Business Valuation Report and the Property Valuation Report and interviewed the relevant team members of the Independent Valuer with particular attention to: (i) the terms of engagement of the Independent Valuer with the Company; (ii) the qualifications and experience of the Independent Valuer; and (iii) the steps and due diligence measures taken by the Independent Valuer in performing the Business Valuation and the Property Valuation. After our review of the engagement letter between the Company and the Independent Valuer, we are satisfied that the scope of work performed by the Independent Valuer is appropriate to perform the Business Valuation and the Property Valuation. We are not aware of any limitation on the scope of work which might have a negative impact on the degree of assurance given by the Independent Valuer. The Independent Valuer has confirmed that it is independent from the Company, the Target Company and the Vendor and their respective related persons. We further understand that the Independent Valuer is certified with the relevant professional qualifications required to perform the Business Valuation and the Property Valuation. The person in-charge of the Business Valuation has over 10 years in conducting business valuation while the person in-charge of the Property Valuation has over 22 years of experience in conducting property valuation, to a wide range of clients in different industries. We also note that the Independent Valuer mainly conducted its due diligence through its own research and has relied on public information obtained through its own research as well as the financial information provided by the Management. The Independent Valuer represented that it has assumed such information to be true, complete and accurate and has accepted it without verification.

In light of the above, we are not aware of any matters that would cause us to question the Independent Valuer's expertise and independence and we consider that the Independent Valuer has sufficient expertise and is independent to perform the Business Valuation and the Property Valuation.

Valuation methodology

We understand that the common valuation approaches include asset approach, market approach and income approach. Asset approach provides an indication of value by aggregating the market values of the subject company's assets and liabilities. Market approach provides an indication of value by comparing the asset with identical or comparable assets for which price information is available. Income approach provides an indication of value by converting future economic benefits to a present value.

As discussed with the Independent Valuer, the Independent Valuer considers that the market approach to be the most appropriate valuation approach over the income approach and the asset approach as: (i) the income approach requires relatively subjective assumptions to which the valuation is largely influenced by any inappropriate assumptions made; (ii) the asset approach is unlikely to capture the future earning potential of the Target Company; and (iii) the application of market approach is relatively more objective as publicly available data is used which reflects the market consensus on the pricing of similar assets. Under market approach, the Independent Valuer adopted the guideline public company method where the valuation was performed by comparing the Target Company with reference to comparable listed companies (the "**Valuation Comparable Companies**"). As explained by the Independent Valuer, the guideline transaction method, which is another commonly adopted valuation methodology under the market approach, was not selected because there were insufficient acquisition/disposal transactions involving private companies engaged in business similar to that of the Target Company and the fact that the relevant acquisition/disposal transactions did not disclose any relevant financial statistics.

Sample selection

From the discussion with the Independent Valuer, we understand that they have exhaustively identified 6 Valuation Comparable Companies that: (i) are listed in and with their products sold in Asia Pacific; (ii) have more than 50% of the revenue and profit generated from the manufacture and sale of aerosol products (which include both personal care products and household products) or hand sanitizers (the "**Revenue Requirement**"); (iii) have sufficient listing (more than 6 months after listing) and operating histories; (iv) have market capitalization under HK$3 billion; and (v) have financial information available to the public. The information of the Valuation Comparable Companies was extracted from Bloomberg and the latest published annual/interim/quarterly reports/results of the Valuation Comparable Companies. For details of the Valuation Comparable Companies, please refer to the Business Valuation Report as set out in Appendix V to the Circular.

We have discussed with the Independent Valuer to understand the appropriateness of the selection criteria of the Valuation Comparable Companies. In the course of our assessment of the Business Valuation, we understand from the Independent Valuer that companies engaged in production and sale of the aerosol containers or parts have been excluded. As explained by the Independent Valuer, the Target Company is mainly engaged in content filing of aerosol cans, and the production and sale of aerosol products (i.e. personal care products (including hair set and keep spray products, skin care products and hand sanitizers) and household products) to be sold to the retail customers, but those excluded companies are mainly engaged in manufacture and sale of non-retail aerosol cans which are to be further processed by the companies similar to the Target Company. Based on the explanation given by the Independent Valuer, we agree the Independent Valuer's approach to exclude the aerosol cans production companies from the list of Valuation Comparable Companies. We have also discussed with the Independent Valuer and understand that taking into account that the implied market capitalization of the Target Company (the "**Implied Market Value**") of HK$400,000,000 which is calculated from dividing the Consideration of HK$120,000,000 by 30%, the Independent Valuer considers it is more appropriate to include only those Valuation Comparable Companies with market capitalization under HK$3 billion as at 31 August 2020 in the Business Valuation. We are also of the view that such criteria can prevent the valuation distortion caused by economy of scale in the Business Valuation. We also noted that by applying the abovementioned selection criteria, the Company is also one of the Valuation Comparable Companies and we are of the view that the Company should rightfully be included in the Valuation Comparable Company on the basis that: (i) it meets all the selection criteria of the Valuation Comparable Companies; (ii) the fact the Target Company, being a subsidiary of the Company, has similar principal business activities as the Company; and (iii) in the inclusion of which generates a more conservative result for the Business Valuation because should the Company, being a company with a P/E Multiple (as defined below) at the lower bound of those of the Valuation Comparable Companies, be excluded from the Valuation Comparable Companies' average P/E Multiple of 16.7 times (excluding outliers) which would be higher the adopted P/E Multiple of 14.7 times to arrive at the Appraised Value. Without the inclusion of the Company's P/E Multiple would generate a higher appraised value which may not be in the best interests of the Company and the Shareholders as a whole and would be as prudent.

Lastly but not least, such inclusion of the Company in the Valuation Comparable Companies, in our view, is an accepted valuation market practice and during our past experience of evaluating transaction considerations involving acquisitions/disposals of businesses that undertook the same or similar principal business activities as the relevant listed companies, we have used such listed companies whom we were hired to provide independent advice as comparable companies to evaluate the relevant considerations.

In addition, with respect to the Valuation Comparable Companies selected by the Independent Valuer, we have extracted the latest annual report, where applicable, of each of the Valuation Comparable Companies from the Stock Exchange and each company's website and reviewed their respective operating scale, business activities, products and segment revenue. We understand that each of them met the Revenue Requirements. As such, we consider the operating business of all the Valuation Comparable Companies are sufficiently comparable to the Target Company. We note that the operating scale of the Valuation Comparable Companies ranged from the latest reported net profit of approximately HK$9.6 million to HK$82.7 million with average and median net profit of HK$32.5 million and HK$27.0 million respectively while the TTM Net Profit of the Target Company was approximately RMB32.6 million (equivalent to approximately HK$36.9 million, based on the HK$/RMB exchange rate of 1.1317). As such, the TTM Net Profit of the Target Company was in fact fairly close to the average and the median net profit of the Valuation Comparable Companies.

Although the business scale of the Valuation Comparable Companies varied from the Target Company in terms of the revenue, business size, asset base and geographical markets, given the uniqueness of the principal business activities of the Target Group, the Independent Valuer advised and we tend to agree that given that there are only a handful of comparable companies engaged in the manufacture and sale of aerosol products, it is common to consider a comprehensive set of comparable companies that engaged in similar businesses (i.e. producing aerosol products) instead of stripping down the sample size to a very minimal (i.e. producing only aerosol personal care products or sanitizers) may also adversely affect the accuracy of the valuation due to the lack of representativeness of the sample. Interestingly, as set out in the Business Valuation Report and as illustrated by the Independent Valuer, assuming those Valuation Comparable Companies which are not engaged in manufacturing personal care or sanitizing products are excluded from the Valuation Comparable Companies, the average P/E Multiple (as defined below) of the remaining Valuation Comparable Companies would be approximately 14.7 times which is same as the adopted P/E Multiple (excluding outliers) (as defined below) of 14.7 times. The exclusion of those Valuation Comparable Companies which are not engaged in manufacturing personal care or sanitizing products would not therefore change the Appraised Value but we do tend to agree with the Independent Valuer that the current sample size of the Valuation Comparable Companies should not be scaled back due to the abovementioned reasonings. The Independent Valuer pointed out that DPI Holdings Berhad ("**DPIH**"), one of the Valuation Comparable Companies, is most similar to the Target Company in terms of revenue and net asset value which had revenue of approximately HK$78.2 million for the year ended 31 May 2020 and net asset value of approximately HK$137.0 million as at 31 May 2020, and had a P/E Multiple (as defined below) of approximately 14.4 times which was very close to the adopted P/E Multiple (as defined below) of approximately 14.7 times. However, it would be nevertheless considered imprudent to rely on one sample to derive the Appraised Value.

We have discussed with the Independent Valuer and understand that in order to test the reasonableness of the adopted P/E Multiple (as defined below) of approximately 14.7 times, they also cross-checked a number of listed companies that are pure-play skin care and hair care personal care products (most of which are not aerosol products) companies with similar operating scales and operating in similar but not identical geographical locations. Based on the selection criteria as set out on V-8 of the Business Valuation Report, the Independent Valuer identified 9 listed comparable companies (the "**Alternative Comparable Companies**") and we noted that 7 of them had a positive P/E Multiple (as defined below) and the average and median P/E Multiples (as defined below) of the Alternative Comparable Companies of approximately 30.2 times (excluding the highest data point) and 28.2 times, respectively, are significantly higher than the adopted P/E Multiple (as defined below) of approximately 14.7 times. The reason for the Independent Valuer adopting a selection criterion of selecting Alternative Comparable Companies with under HK$15 billion market capitalization (being the selection criterion the Independent Valuer used for selecting the Alternative Comparable Companies) is because only 5 Alternative Comparable Companies (with only 3 had a positive P/E Multiple (as defined below)) that had a market capitalization below HK$3 billion (being the selection criterion the Independent Valuer used for selecting the Valuation Comparable Companies) and their P/E Multiples (as defined below) were all over 25.0 times (i.e. approximately 25.0 times, 43.6 times and 724.2 times respectively). Given the fact that only 3 out of 5 of the Alternative Comparable Companies with a market capitalization below HK$3 billion had a positive P/E Multiple (as defined below), the Independent Valuer considers the full set of 9 Alternative Comparable Companies can draw a more conclusive view. Taking into account of the above, we consider the Independent Valuer adopted a prudent approach in the sample selection during the course of the Business Valuation to arrive at the adopted P/E Multiple (as defined below) of approximately 14.7 times.

Taking into consideration that, among others, (i) the TTM Net Profit of the Target Company was fairly close to the average and the median net profit of the Valuation Comparable Companies; (ii) appropriate consideration should be given to a sufficient sample size although this could include samples with varying revenue, business size, asset base and geographical markets compared to the Target Company; (iii) given the uniqueness of the principal business activities of the Target Group, the current set of Valuation Comparable Companies is able to provide a comprehensive appraisal of the underlying value of the Target Company; and (iv) the Independent Valuer has excluded P/E Multiples (as defined below) of the Valuation Comparable Companies which were considered to be outliers as discussed below, we are of the view that the Valuation Comparable Companies, taken as a whole, is broadly comparable to the Target Group and can provide a fair and representative benchmark for the Business Valuation, therefore, we consider that the selection criteria of the Valuation Comparable Companies to be justifiable.

Choice of valuation multiples

In carrying out the Business Valuation, the valuation multiple adopted by the Independent Valuer was the price-to-earnings multiples (the "**P/E Multiples**"). As advised by the Independent Valuer, other valuation multiples with the likes of price-to-sales multiples (the "**P/S Multiples**") and the enterprise value to earnings before interest, taxes, depreciation and amortization multiples (the "**EV/EBITDA Multiples**") have not been chosen because they have not accounted for costs, expenses, finance costs and taxes, as applicable. The price-to-book multiples (the "**P/B Multiples**") is derived from the book value of the company. Since the book value is estimated based on the relevant accounting standards and it may vary in different country, it may not reflect the fair value of the assets owned by the Valuation Comparable Companies. Furthermore, the P/B Multiple does not consider the future economic benefits, such as the profitability or earning potential, of the Valuation Comparable

Companies. As advised by the Independent Valuer and we tend to agree, the P/E Multiple measures how much investors are willing to pay for a company's net earnings, the Business Valuation using P/E multiple incorporates the differences in margins and costs among the Valuation Comparable Companies, by referencing to the net earnings which has been deducted all costs, expenses and tax etc. In other words, even though the Valuation Comparable Companies may have different pricing strategies and returns per unit product, the adoption of their net earnings has incorporated these differences and compare with each other on an overall net earning basis. As such, we consider the P/E Multiple is appropriately placed to capture and account for all the profitability, costs, expenses, finance costs and taxes of the Valuation Comparable Companies which can provide a meaningful indication of value of the Valuation Comparable Companies. In addition, taking into consideration of the significant profit margin (over 20%) earned by the Target Company for 1H2020 and in light of our assessment of the sustainability of the TTM Net Profit in the paragraph headed "Sustainability of earnings of the Target Company" under the section headed "2. Background information of the Target Company" in this letter above, we concur with the view of the Independent Valuer that the P/E Multiples of the Valuation Comparable Companies to be a suitable and appropriate valuation multiple for the valuation of profit-making enterprises.

We further noted the Independent Valuer calculated the P/E Multiples of the Valuation Comparable Companies by dividing the respective market capitalization of the Valuation Comparable Companies as at 31 August 2020 by the respective latest trailing 12-months normalized net profit of the Valuation Comparable Companies taken from the latest available published financial reports/results of the Valuation Comparable Companies. As explained by the Independent Valuer, the latest trailing 12-months normalized net profit is the profit generated from the principal business of the Valuation Comparable Companies by excluding the irrelevant income and cost, such as other income, other gain/loss, listing expenses, government grant, change in fair value, exchange gain/loss and gain/loss on disposal of assets.

Based on the above and given the TTM Net Profit is based on the trailing 12 months normalized net profit of the Target Company as of 31 August 2020 (i.e. from 1 September 2019 to 31 August 2020), we consider that the Independent Valuer's adoption of latest trailing 12-months normalized net profit of the Valuation Comparable Companies to be fair and appropriate for the purpose of the Business Valuation.

Discount on lack of marketability

As the Target Company is a privately held the Company and Mr. Lin, the Independent Valuer has applied a discount on lack of marketability (the "**DLOM**") of 15.8% due to its lack of marketability as compared to public companies. We have discussed with the Independent Valuer and understand that the DLOM was adopted with reference to the restricted stock study published in "Stout Restricted Stock Study Companion Guide 2020" by Stout Risius Ross, LLC, one of the national preeminent firms offering a broad range of financial advisory services to private and public companies. We have obtained the relevant extract of the study and noted that, according to the study, the average and median of the DLOM in 759 private placement transactions of unregistered common stock issued by publicly traded companies from July 1980 to December 2019 were approximately 20.6% and 15.8% respectively. As advised by the Independent Valuer, the median was adopted for the sake of minimizing effect of extreme data considering the large sample size, which we agree. Having considered: (i) the empirical data supported by a global financial database provider; and (ii) the reason for adopting the median instead of the average DLOM, we consider that the DLOM of 15.8% applied by the Independent Valuer to be fair and reasonable.

Property Valuation

As the Land is currently vacant and not held for the principal business's operation, during the course of the Business Valuation, in order to reflect such value, the Independent Valuer has made reference to the Property Valuation Report which is set out in the Appendix VI to the Circular.

As stated in the Property Valuation Report, the appraised market value of the Land as at 30 September 2020 is approximately RMB40.1 million.

In performing the Property Valuation, the Independent Valuer has complied with all the requirements in accordance with HKIS Valuation Standards 2017 published from time to time by The Hong Kong Institute of Surveyors, The RICS Valuation — Global Standards incorporating the IVSC International Valuation Standards published by the Royal Institution of Chartered Surveyors and Chapter 5 and Practice Note 12 of the Listing Rules.

As set out in the Property Valuation Report and also based on our discussions with the Independent Valuer in relation to the Property Valuation, in deriving the appraised market value of the Land, the Independent Valuer has adopted the direct comparison method. We also understand from the Independent Valuer that the direct comparison method is commonly used in the industry.

The Independent Valuer has provided and we have reviewed the valuation working paper for the Property Valuation. We have also discussed with the staffs of the Independent Valuer on the steps and due diligence measures taken by them and we are of the view that the Property Valuation was conducted in line with the direct comparison method. By making reference to comparable sales evidences available in the local market, and with adjustments to reflect the differences between the subject property and the comparables in terms of various factors, the direct comparison method directly reflects the market value of the subject property. The Independent Valuer chose the comparable transactions based on the following factors, amongst others, (i) the nature and the use of land; (ii) the time of transaction; and (iii) the distance between the comparable lands and the Land. The Independent Valuer selected three of the most suitable comparable land based on the abovementioned and their professional judgement. We have reviewed and discussed about the Independent Valuer's workings on the selection of the comparable lands and the relevant adjustments adopted based on the following factors, amongst others, (i) the transaction timing; (ii) the shape of the lands; (iii) the transportation facilities nearby; (iv) the environmental quality of the lands; (v) the location; and (vi) the remaining land use rights. We understood that the adjustments were made according to guidance given in the "Regulations for valuation on urban land" published by 中華人民共和國國土資源部 (The Ministry of Land and Resources of the PRC*). We are of the view that the basis of the comparable lands selection and the adjustments, taking into account various factors (i.e. the land nature, the transaction timing, the location, the land's shape, the transportation's facility and the remaining land use rights), made to reflect the value difference between the selected comparable lands and the Land are reasonable and relevant for the purpose of establishing the market value.

Based on the above, we consider that the methodology adopted are reasonable approaches in establishing the appraised value of the Land of approximately RMB40.1 million.

Calculation of the Appraised Value

As shown in the Business Valuation Report, to arrive at the final valuation figure for the Target Company's principal business (on marketable basis), the Independent Valuer first multiplied the average P/E Multiple (excluding outliers) of the Valuation Comparable Companies of approximately 14.7 times by the **TTM Net Profit** of approximately RMB32.6 million to arrive at the appraised business value of the Target Company's principal business (on marketable basis) of approximately RMB480.4 million.

Regarding the management accounts provided by the Management to the Independent Valuer for the course of the Business Valuation, please refer to our work done and assessment of the sustainability of the TTM Net Profit in the paragraph headed "Sustainability of earnings of the Target Company" under the section headed "2. Background information of the Target Company" in this letter above. In addition, we have obtained the management accounts of the Target Company for the eight months ended 31 August 2019 and 2020 and FY2019 and re-computed the TTM Net Profit and noted no difference with respect to the TTM Net Profit figure used by the Independent Valuer with the re-computed figure.

We noted that the P/E Multiples of 1 out of 6 of the Valuation Comparable Companies, being Samurai 2K Aerosol Limited ("**Samurai**"), has been excluded from the Business Valuation. As advised by the Independent Valuer, they are of the view that the P/E Multiples of Samurai is outlier, its P/E Multiples is much higher than the other Valuation Comparable Companies. Considering the P/E Multiple of Samurai of approximately 26.2 times is significantly above remainder of the P/E Multiples of the other Valuation Comparable Companies ranging from approximately 7.4 times to approximately 22.1 times, we concur with the Independent Valuer that Samurai can be considered outlier.

After adjusting by the DLOM of 15.8%, the appraised value of the Target Company (on non-marketable basis) is approximately RMB404.5 million. By adding the appraised value of the Land of approximately RMB40.1 million, the appraised value of the 100% equity interest in the Target Company comes to approximately RMB444.6 million. As advised by the Independent Valuer, as the Land is currently not held for the principal business operation of the Target Company. Therefore, as a separate asset with standalone value, the Independent Valuer has valued the Land separately under the Property Valuation.

We noted that the DLOM has not been applied to the appraised value of the Land. We understood from the Independent Valuer that the market value of the selected comparable lands was determined after the arm's length negotiation between the purchaser and seller in the private market which the lack of marketability has already been taken into account during the negotiation. Therefore, the DLOM is not applicable to the Property Valuation.

For the 30% equity interest in the Target Company, the Appraised Value is approximately RMB133.4 million (equivalent to approximately HK$151.0 million, based on the HK$/RMB exchange rate of 1.1317).

Our view

Having discussed the above market approach adopted by the Independent Valuer and reviewed the details of their valuation methodology, bases and assumptions, we are of the opinion that the chosen valuation methodology in establishing the Business Valuation is in line with market practices to value businesses of a similar nature.

6. Comparable analysis

The Target Company is principally engaged in the design, development, manufacture and sale of personal care products (including sanitizers). In assessing the fairness and reasonableness of the Consideration, we have conducted a comparable analysis by comparing the relevant listed peer companies, which are engaged in similar principal business activities, against the Target Company.

Among the valuation multiples available for our own independent analysis of the Consideration, we have identified that the P/E Multiple to be the most appropriate method on the basis that the Target Company has been consistently recorded positive earnings for the three years ended 31 December 2019 and the six months ended 30 June 2020.

In such regard, we have, on a best effort basis, identified, based on information extracted from Bloomberg, a list of comparable companies (the "**Comparable Companies**") where:

(i) they are listed stock exchanges in Asia Pacific;

(ii) their main products for sanitizers, personal care products and/or aerosol products;

(iii) at least 50% of the latest published annual revenue was generated from selling of sanitizers, personal care products and/or aerosol products; and

(iv) they have positive earnings.

Based on the above criteria, set out below are 6 Comparable Companies together with the relevant P/E Multiples, the information of which we consider, to the best of our knowledge and ability, fair and representative sample of the Target Company for the purpose of arriving at a meaningful comparison to the Consideration.

Name	Stock code	Listed location	Principal business activities	Market Capitalization as at 4 September 2020 *(HK$' million)* *(Note 1)*	P/E Multiple *(x)* *(Note 2)*
Zoono Group Limited	ZNO.AU	Australia	The company manufactures chemical products. The company develops antimicrobial solutions for hand sanitizers, deodorants, skin lotions, water treatment chemicals, surface sanitizers, facial wipes, aerosols, and other applications.	1,768	20.4
China Ludao Technology Company Limited ("**China Ludao**") *(Note 3)*	2023.HK	Hong Kong	The company is a manufacturer of aerosol products in the PRC. The company is principally engaged in the research and development, manufacture and sale of aerosol and related products. The company's products include, household and auto care products, air fresheners, personal care products, and insecticides.	561	20.8
SANVO Fine Chemicals Group Limited ("**SANVO**") *(Note 3)*	301.HK	Hong Kong	The company produces and sells industrial chemical products. The company manufactures and sells aerosols, organic silicone, adhesives, synthetic adhesives, and other products.	445	16.4

Name	Stock code	Listed location	Principal business activities	Market Capitalization as at 4 September 2020 *(HK$' million)* *(Note 1)*	P/E Multiple *(x)* *(Note 2)*
The Company	1861.HK	Hong Kong	The Company operates as an automotive beauty and maintenance aerosol product manufacturer. The Company designs, develops, produces, and sells auto cleaning and maintenance products, paintings and coatings, and air-fresheners. The Company also manufactures personal care products and household products.	425	11.4
Samurai 2K Aerosol Limited (i.e. Samurai) *(Note 3)*	SAMU R.SP	Singapore	The company provides aerosol coating solutions. The company offers coating solutions for the automotive refinishing and refurbishing industry.	306	32.1
DPI Holdings Berhad (i.e. DPIH) *(Note 3)*	DPIH.MK	Malaysia	The company operates as a holding company. The company, through its subsidiaries, manufactures decorative and industrial wood coating products, such as aerosol spray paint, thinner, and solvents. The company serves customers in Malaysia.	177	15.7
			Maximum		**32.1**
			Minimum		**11.4**
			Average		**19.5**
			Median		**18.4**

Name	Stock code	Listed location	Principal business activities	Market Capitalization as at 4 September 2020 *(HK$' million)* *(Note 1)*	P/E Multiple *(x)* *(Note 2)*
Target Company			The Target Company is principally engaged in the design, development, manufacture and sale of personal care aerosol products		**12.0** *(Note 4)*

Notes:

1. The market figures reported in RMB, New Zealand dollar ("***NZD***") and Malaysian Ringgit ("***MYR***") were converted into HK$ at the exchange rate of RMB1:HK$1.1327, NZD1:HK$5.2091 and MYR1:HK$1.8680 respectively for comparison purpose.

2. The P/E Multiples of the Comparable Companies are calculated by dividing the respective market capitalization of which as at the close of market of 4 September 2020, being the date of the Sale and Purchase Agreement, by the net profit attributable to the shareholders of the Comparable Companies as shown in their respective latest published financial results and/or reports.

3. China Ludao (whose key products are aerosol auto care products and personal care products), SANVO (whose key products are industrial aerosol products), DPIH(whose key products are aerosol decorative and wood coating products) and Samurai (whose key products are aerosol automotive refinishing and refurbishing products) are principally engaged in aerosol products and the Target Company is principally engaged in the manufacture and sale of aerosol products (which include both personal care products (including hand sanitizers) and household products). We are of the view that, given the products produced and sold by these two companies contain the aerosol features, which are similar to those key products of the Target Company, they are appropriately included as samples of the Comparable Companies (and in the case of the Business Valuation, appropriately included as samples of the Valuation Comparable Companies).

4. The Implied Market Value of the Target Company is approximately HK$400,000,000 which is calculated from dividing the Consideration of HK$120,000,000 by 30%. The implied P/E Multiple (the "***Implied P/E Multiple***") of approximately 12.0 time is calculated by dividing the aforesaid Implied Market Value of approximately HK$400,000,000 by the trailing 12-months net profit of the Target Company for the 12-months ended 30 June 2020 of approximately HK$33.2 million.

The P/E Multiples of the Comparable Companies ranged from approximately 11.4 times to approximately 32.1 times with an average and a median of approximately 19.5 times and 18.4 times, respectively. We noted that the Implied P/E Multiple of approximately 12.0 times is close to the lower bound of the P/E Multiples of the Comparable Companies and it is significantly below the average and median of the P/E Multiples of the Comparable Companies. Taking into account the fact that the Implied P/E Multiple of approximately 12.0 times is significantly below the average and the median of that of the Comparable Companies, we consider the Consideration to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

7. Financial effects of the Acquisition

Upon Completion, the Purchaser's equity interest in the Target Company will increase from 70% to 100%, and the financial information of the Target Company will continue to be consolidated into the financial statements of the Group with certain non-controlling interests removed. The Company confirms and we agree with the financial effects to the Group to be as follows:

Asset and liabilities

As at 30 June 2020, the unaudited consolidated total assets and liabilities of the Group, as set out in the 2020 Interim Report, amounted to approximately HK$472.6 million and HK$164.2 million, respectively. Assuming Completion would take place on 30 June 2020, the unaudited pro forma consolidated total assets of the Group would have remained the same while the unaudited pro forma consolidated total liabilities of the Group would have increased to approximately HK$284.2 million, respectively, as a result of the Acquisition as set out in the Pro Forma Financial Information as set out in Appendix III of the Circular.

Earnings

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company. As such, the 30% non-controlling interests will be derecognized and the Company will no longer share any profit or loss of the Target Company to Mr. Lin upon Completion. According to the Accountants Report as set out in Appendix II to the Circular, the net profit attributable of the Company for 1H2020 was approximately HK$32.9 million. Upon Completion the entire amount of such net profit, with no non-controlling interests associated with Mr. Lin, would be attributable to the Company.

As disclosed in the Letter from the board, the Management is of the view that the Target Company has been an important contributor to the Group's revenue and profit, the Acquisition represents an opportunity for the Group to further consolidate its interest in the Target Company which gives the Group greater flexibility for implementing integration strategies to release the potential and value of the Target Company's business and contributes to the cash flow and profitability of the Group should the Target Company continue to perform in future. Therefore, the Management expects that the Acquisition may contribute positively to the financial performance of the Group.

Gearing

The gearing ratio (representing the net debt divided by capital and net debt at the end of the period/year and multiplied by 100%) of the Group as at 30 June 2020 was approximately 8.5%. Assuming Completion would take place on 30 June 2020, since the Company intends to fund the Consideration by the Group's banking facilities, which would increase in other payables and accruals by HK$120 million and correspondingly this would result in a decrease by the same amount in the equity balance of the Company of which approximately HK$109.0 million would be attributable to in the equity attributable to the Shareholders and approximately HK$11.0 million would be attributable to in the non-controlling interests. As a result of the above, the gearing ratio of the Group would have increased from approximately 8.5% to 43.9%.

Working capital

The working capital of the Group was approximately HK$111.4 million as at 30 June 2020. Based on the unaudited pro forma financial information of the Group as set out in Appendix III to the Circular, the current liabilities would have exceeded the current assets of the Target Company, the working capital would have decreased to approximately HK$8.6 million as if the Acquisition would take place on 30 June 2020.

As set out in the section headed "3. Working capital" under Appendix I to the Circular, the Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources currently available to the Group including the internally generated funds, the banking facilities available to the Group and the effect of the transactions contemplated under the Sale and Purchase Agreement, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements for the next 12 months from the date of the Circular.

8. Comparison of the considerations of the Previous Acquisition and the Acquisition

We draw the Independent Shareholders' attention to the fact that the consideration of HK$90.0 million for the Previous Acquisition (i.e. for the 70% issued share capital of the Target Company) reflected an implied valuation on the entire issued share capital of the Target Company of approximately HK$128.6 million, whereas the Consideration of HK$120.0 million for the 30% issued share capital of the Target Company under the Acquisition reflects an implied valuation of approximately HK$400.0 million. Such discrepancy (the "**Value Discrepancy**") in considerations are not surprising given the fact that the profit of the Target Company for the twelve months ended 30 September 2017, for which the previous business valuation of the Target Company was based, was only approximately HK$8.1 million whereas under the Business Valuation, the TTM Net Profit for the twelve months ended 31 August 2020 was RMB32.6 million (equivalent to approximately HK$36.9 million, based on the HK$/RMB exchange rate of 1.1317). The increase in the trailing twelve months net profit was a significant 355.6% jump which was trending similar to the increase in the implied valuation on the entire issued share capital of the Target Company of approximately 211.0% though the relative increase in the Consideration was not completely linear. Given the above and the fact that the Consideration of HK$120,000,000 represents a discount of approximately 20.5% to the Appraised Value (such discount was 23.9% under the Previous Acquisition comparing the consideration for the Previous Acquisition to the then business valuation of 70% issued share capital of the Target Company) and the factors discussed in the section below, we are of the view that the Value Discrepancy is reasonable.

9. OPINION AND RECOMMENDATION

Based on the factors discussed above and having considered in particular that:

- the benefits to be derived by the Group from the Acquisition in the section headed "3. Reasons for and benefits of the Acquisition" in this letter above;
- the hand sanitizer market in the Asia Pacific region is projected to grow at a CAGR of approximately 43.6% from 2019 to 2027 and the positive outlook of the personal care products industry;
- the stellar financial performance delivered by the Target Company for FY2018 and 1H2020 which exhibited the Management's ability to turnaround the business of the Target Company under adverse market conditions and to achieve upward trending profits for the Target Company;
- the rising number of customers of the Target Company from 63 for FY2017 to 206 for 1H2020;
- over 92% of the revenue of the Target Company during 1H2020 was contributed by the sales to the customers in the Asia Pacific region which can effectively shield the Target Company from the negative impacts of the Sino-US trade war which made the Target Company suffered during FY2019;
- the sustainability of the TTM Net Profit as discussed in the paragraph headed "Sustainability of earnings of the Target Company" under the section headed "2. Background information of the Target Company" in this letter above;
- the methodology, bases and assumptions adopted by the Independent Valuer in arriving the Business Valuation are appropriate and in line with market practices;
- the Consideration of HK$120 million represents a discount of approximately 20.5% to the Appraised Value of approximately HK$151 million;
- the Implied P/E Multiple of approximately 12.0 times is significantly below the average and median of the P/E Multiples of the Comparable Companies; and
- albeit the Acquisition will decrease working capital and increase gearing of the Group, upon Completion, the Company would be entitled to the entire net profit of the Target Company, with no non-controlling interests associated with Mr. Lin,

we are of the opinion that the entering into the Sale and Purchase Agreement and the transactions contemplated thereunder is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole, and the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent

Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Opus Capital Limited
Cheung On Kit Andrew
Executive Director

Mr. Cheung On Kit Andrew is an Executive Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Cheung has over 12 years of corporate finance experience in Asia Pacific and has participated in and completed various financial advisory and independent financial advisory transactions.

* *For illustrative purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.botny.com).

- prospectus of the Company published on 2 June 2019 in relation to the financial information of the Group for the two years ended 31 December 2017 and 2018 (pages I-1 to I-75)
  (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0602/ltn20190602033.pdf)

- annual report of the Group for the year ended 31 December 2019 published on 8 April 2020 (pages 55 to 137)
  (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0408/2020040800399.pdf)

- interim report of the Group for the six months ended 30 June 2020 published on 31 August 2020 (pages 11 to 35)
  (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0831/2020083100603.pdf)

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 October 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the total indebtedness of the Group was as follows:

Borrowings

The bank borrowings of the Group, which were secured by the Group's properties, plant and equipment and land use rights, amounted to approximately HK$37.6 million.

Contingent liabilities

The Group did not have any significant contingent liabilities.

Save as aforesaid, and apart from intra-group liabilities, the Group did not have any outstanding debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, bank overdrafts and loans, other loans or other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantee or other material contingent liabilities, at the close of business on 30 October 2020.

The Board has confirmed that, save as disclosed above, there has not been any material change in the indebtedness or contingent liabilities of the Group since 30 October 2020 and up to the Latest Practicable Date.

3. WORKING CAPITAL SUFFICIENCY

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources currently available to the Group including the internally generated funds, the banking facilities available to the Group and the effect of the transactions contemplated under the Sale and Purchase Agreement, and in the absence of unforeseen circumstances, the Group has sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors confirmed that they are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECTS

In view of consumers' rising awareness on health and hygiene caused by the COVID-19 pandemic, the Directors consider that there is a growth potential in the sanitizer product market which forms part of the Group's personal care product business conducted through the Target Company. Upon Completion, the Company's equity interest in the Target Company will increase from 70% to 100%, and the financial information of the Target Company will continue to be consolidated into the financial statements of the Group. The Board considers that the Acquisition represents an opportunity for the Group to further consolidate its interest in the Target Company which gives the Group greater flexibility for implementing integration strategies to release the potential and value of the Target Company's business and contributes to the cash flow and profitability of the Group should the Target Company continue to perform in future.

Set out below is the management discussion and analysis of performance and other information of the Group for the six months ended 30 June 2020 principally extracted from the interim report of the Company for the six months ended 30 June 2020.

Business review

The Group is principally engaged in 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. The Group also designs, develops, manufactures and sells personal care products (such as hand sanitiser, 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 its 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 (i) the networks of distributors, who further resell our OBM products to wholesalers, retailers and end-users in the PRC; and (ii) 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 six months ended 30 June 2020, 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 multimedia platforms in order to promote the corporate image and brands to new potential and existing customers. The Group has launched the series of automotive beauty and maintenance products, 保寶龍, under its BOTNY (保賜利) brand for the repositioning of its corporate image and for broadening its clientele.

Operating environment and prospects

As the global economy is shrouded in the shadow of the Sino-US trade war and outbreak of the COVID-19 pandemic, 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 diversification strategy and customer management and actively participating in various types of exhibitions in the 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 the slowdown of the PRC economy caused by the COVID-19 pandemic, the economic foundation of the PRC market keeps stable in the long run. The Group has developed a series of new sanitizer products to meet the demands under the COVID-19 pandemic. Therefore, opportunities and challenges coexist. The Group is still prudent and optimistic towards its domestic market and 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 six months ended 30 June 2020, the Group recorded a turnover of approximately HK$344.1 million, representing a significant increase of approximately 19.7% as compared to the corresponding period in 2019.

For the six months ended 30 June 2020, the Group generated revenue of approximately HK$209.1 million from the PRC customers, representing a slight decrease of approximately 5.2% as compared to the corresponding period in 2019. The decrease in the PRC sales was caused by the short term lockdown in the PRC due to the COVID-19 pandemic, which was partially offset by the increase in sales of newly developed sanitizer products.

For the six months ended 30 June 2020, the Group recorded revenue from overseas customers of approximately HK$135.0 million, representing a significant increase of approximately 101.8% as compared to the corresponding period in 2019. This was mainly caused by the net effects of (i) an increase in export sales to a United States customer, which were conducted through a Hong Kong trading company as an export hub; (ii) continuously developing new customers globally which drove the increase in export sales; and (iii) an increase in export sales due to the development of a series of new sanitizer products to meet the demands under the COVID-19 pandemic.

Cost of sales

For the six months ended 30 June 2020, cost of sales of the Group amounted to approximately HK$220.0 million, representing approximately 63.9% of the turnover in the period. There was a decrease of approximately 7.4% in percentage of cost of sales which was mainly attributable to the net effects of (i) a decrease 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 of approximately HK$124.1 million for the six months ended 30 June 2020, representing a significant increase of approximately 50.2% as compared to the corresponding period in 2019. The increase in gross profit was mainly driven by sales of products with higher gross profit margins and the decrease in the cost of procurement of solvents, being major raw materials for the production. The gross profit margin therefore increased from approximately 28.7% for the six months ended 30 June 2019 to approximately 36.1% for the six months ended 30 June 2020.

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. For the six months ended 30 June 2020, other income and gains of the Group was approximately HK$6.9 million, representing an increase of approximately 21.1%, which was mainly due to the net effects of (i) the increase in sales of scrap materials of approximately HK$1.2 million; (ii) the increase in government grants of approximately HK$0.5 million; and (iii) the decrease in income from provision of research and development services of approximately HK$0.6 million.

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 six months ended 30 June 2020, selling and distribution expenses were approximately HK$26.3 million, representing an increase of approximately 4.4% as compared to the corresponding period in 2019. The increase was primarily due to the net effects of (i) the increase in transportation expenses; (ii) the decrease in entertainment expenses for customers meetings; and (iii) the decrease in exhibition expenses.

Administrative expenses

Administrative expenses mainly represent staff salaries, share option expenses, listing expenses, welfare and bonus for administrative staff and directors' remuneration, professional fees, other taxes and surcharges, and depreciation expenses. For the six months ended 30 June 2020, administrative expenses were approximately HK$27.6 million, representing an increase of approximately 20.5% as compared to the corresponding period in 2019. The increase was primarily due to the net effects of (i) the increase in staff salaries and welfare of approximately HK$2.3 million; (ii) the increase in maintenance costs of approximately HK$2.5 million; (iii) the increase in depreciation expenses of approximately HK$1.7 million; (iv) the increase in share option expenses of approximately HK$1.1 million; and (v) the decrease in professional fees, consulting fee and related costs incurred for listing of approximately HK$3.3 million.

Finance costs

For the six months ended 30 June 2020, the finance costs of the Group were approximately HK$0.9 million, representing a decrease of approximately 47.1% as compared to the corresponding period in 2019. The decrease was mainly due to the decrease in average bank loan outstanding balance compared to corresponding period in 2019, being offset by the increase in Hong Kong Interbank Offered Rate ("**HIBOR**").

Net profit

The Group net profit amounted to approximately HK$39.7 million for the six months ended 30 June 2020, representing a significant increase of approximately 118.1% as compared to the corresponding period in 2019. This was mainly attributable to, among other things, (i) the Group's continuous efforts in enhancing operational management and improving control over operating costs in order to reduce the negative impact of the COVID-19 pandemic to the Group's operations; (ii) the development of a series of new sanitizer products by the Group to meet the demands under the COVID-19 pandemic; and (iii) the decrease in professional fees incurred for listing.

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 30 June 2020, the Group had net current assets of approximately HK$111.4 million. The Group's cash and cash equivalents, including pledged bank deposits, amounted to approximately HK$104.6 million as at 30 June 2020 which were mainly denominated in Renminbi, US$, Japanese yen and HK$. The current ratio of the Group was approximately 1.7 as at 30 June 2020.

Borrowings and pledge of assets

The bank borrowings of the Group, which were secured by the Group's properties, plant and equipment and land use rights, amounted to approximately HK$35.9 million as at 30 June 2020 with maturity in 2021. Among total bank borrowings of the Group as at 30 June 2020, approximately HK$20.9 million was with a contractual interest rate of 2.5% and approximately HK$15 million was with a contractual interest rate of HIBOR plus 1.7%.

As at 30 June 2020, the Group had available unutilized banking facilities of approximately HK$95.6 million.

Gearing ratio

Gearing ratio, being bank borrowings divided by equity attributable to the Shareholders, was approximately 12.1% as at 30 June 2020.

Capital structure

As at 30 June 2020, the total number of issued Shares was 233,544,750.

Foreign exchange exposure and exchange rate risk

Approximately 39.2% of the Group's revenue for the six months ended 30 June 2020 was denominated in US$. However, over 90.0% of the production costs were settled in RMB. Therefore, there is a currency mismatch between revenue denominated in US$ and production costs denominated in RMB, 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 six months ended 30 June 2020, the Group did not enter into any foreign currency forward contracts nor have any outstanding foreign currency forward contracts.

Employees and emoluments policy

As at 30 June 2020, the Group had a workforce of 513 employees. The staff costs, including directors' emoluments but excluding any contributions to the pension scheme, were approximately

HK$21.7 million for the six months ended 30 June 2020. 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 and share options are granted to attract and retain eligible employees of the Group. The emoluments of the Directors have been determined with reference to the skills, knowledge, and 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 six months ended 30 June 2020.

Significant investments

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 "**Purchase**"). The consideration for the Purchase was 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 OBM and 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 30 June 2020 is £3,650,000 (equivalent to approximately HK$38,000,000), representing approximately 8.0% of the total assets of the Group. There is no any realised and unrealised gain or loss during the six months ended 30 June 2020.

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

Save as disclosed above, as at 30 June 2020, the Group did not have any significant investments.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

On 10 June 2020, Precious Dragon Technology Thai Limited ("**Precious Dragon Thai**"), a wholly-owned subsidiary of the Company, as the buyer, and Pinthong Industrial Park Public Company Limited ("**Pinthong**"), as the seller, entered into a sale and purchase agreement, pursuant to which

Precious Dragon Thai conditionally agreed to acquire the land situated in Pinthong Industrial Estate Project 3 developed by Pinthong at 219 Moo 6, Bowin Sub-district, Sriracha District, Chonburi Province 20230, Plot No. G016, under Title Deed No. 170459, Land Range No. 5235 III 2248,2448, Land No. 5101, Survey Page no. 22333, covering a total area of 36,983.20 square meters (the "**Land**") (the "**Acquisition of the Land**") from Pinthong at a consideration of Baht 100,548,075.00 (equivalent to approximately HK$24,800,000), subject to adjustment. The consideration for the Acquisition of the Land was funded by the Company's internal resources.

Through the Acquisition of the Land, the Group plans to set up a new production plant for the production of its products in Thailand. The Directors consider that the Acquisition of the Land is beneficial to the Group for the following reasons:

(i) the Acquisition of the Land represents a strategic move for the Group to diversify its production base overseas and strengthen its overseas sales, particularly in the South Asia countries. Most importantly, the Group will have an overseas production base to cope with the changes and impacts that may result from the Sino-US trade war and other international trade barriers;

(ii) the Group is expected to benefit from the lower cost of raw materials from the surrounding area, thereby enhancing the competitiveness of the Group's products in Asia; and

(iii) increasingly stringent health, safety and environmental policies, laws and regulations in the PRC may impose additional costs to the production of the Group. Moreover, any violation of applicable health, safety and environmental policies, laws and regulations in the PRC may result in orders of corrections, fines, shutdown of production and obligation to take corrective measures which could materially and adversely affect the Group's business, financial position and results of operations. Having an overseas manufacturing plant can minimise and diversify the aforesaid risk.

The fair value of the Land as at 30 June 2020 is Baht 100,548,075.00 (equivalent to approximately HK$24,800,000), representing approximately 5.2% of the total assets of the Group. There is no any realised and unrealised gain or loss during the six months ended 30 June 2020.

The Acquisition of the Land was completed on 22 July 2020.

Details of the Acquisition of the Land are set out in the announcements of the Company dated 10 June 2020 and 15 June 2020.

Save as disclosed above, during the six months ended 30 June 2020, 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 30 June 2020.

Contractual obligations

As at 30 June 2020, the Group's capital commitments amounted to approximately HK$18.6 million.

Contingent liabilities

As at 30 June 2020, the Group had no significant contingent liabilities.

The following is the text of a report received from the Target's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

8 December 2020

The Directors
Precious Dragon Technology Holdings Limited

Dear Sirs,

We report on the historical financial information of Guangzhou Euro Asia Aerosol and Household Products Manufacture Co., Limited (the "**Target**") set out on pages II-4 to II-66, which comprises the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the "**Relevant Periods**"), the statements of financial position of the Target as at 31 December 2017, 2018 and 2019 and 30 June 2020, and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-66 forms an integral part of this report, which has been prepared for inclusion in the circular of Precious Dragon Technology Holdings Limited (the "**Company**") dated 8 December 2020 (the "**Circular**") in connection with the proposed acquisition of the 30% equity interest in the Target by the Company (the "**Acquisition**").

The Sole Director of the Target's Responsibility for the Historical Financial Information

The sole director of the Target (the "**Target's Sole Director**") is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information and for such internal control as the Target's Sole Director determines is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Target's Sole Director, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the financial position of the Target as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of the financial performance and cash flows of the Target for each of the Relevant Periods in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

Review of Interim Comparative Financial Information

We have reviewed the interim comparative financial information of the Target which comprises the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Interim Comparative Financial Information"). The sole director of the Target is responsible for the preparation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends paid by the Target in respect of the Relevant Periods.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

For the purpose of this report, the Target's Sole Director has prepared the financial statements of the Target (the "**Underlying Financial Statements**") for the Relevant Periods in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**"). The Underlying Financial Statements for each of the years ended 31 December 2017 , 2018 and 2019 and the six months ended 30 June 2020, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The Historical Financial Information is presented in Hong Kong dollar ("**HK$**") and all values are rounded to the nearest thousand ("**HK$'000**") except when otherwise indicated.

I. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

A) Statements of profit or loss and other comprehensive income

		Year ended 31 December			For the six months ended 30 June	
		2017	2018	2019	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
REVENUE	6	66,432	126,653	56,444	38,159	144,560
Cost of sales		(50,266)	(91,315)	(41,614)	(26,716)	(89,153)
Gross profit		16,166	35,338	14,830	11,443	55,407
Other income and gains	6	381	868	466	322	1,053
Selling and distribution expenses		(2,154)	(2,126)	(3,815)	(2,365)	(3,048)
Administrative expenses		(5,052)	(7,565)	(5,377)	(3,656)	(5,221)
Research and development expenses		(233)	(991)	(2,281)	(1,431)	(162)
Impairment losses on financial assets, net		(26)	(831)	(512)	(1,196)	(3,003)
Other expenses		(957)	(1,206)	(196)	(434)	(989)
Finance costs	8	(188)	(133)	(36)	(19)	(123)
PROFIT BEFORE TAX	7	7,937	23,354	3,079	2,664	43,914
Income tax expense	11	(2,070)	(5,897)	(742)	(654)	(11,012)
PROFIT FOR THE YEAR		5,867	17,457	2,337	2,010	32,902
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX						
Exchange differences on translation of foreign operations		2,410	(2,407)	(571)	(58)	(747)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		8,277	15,050	1,766	1,952	32,155

I. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

B) Statements of financial position

		As at 31 December			As at 30 June
	Notes	**2017**	**2018**	**2019**	**2020**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	14	9,147	7,695	7,239	7,296
Right-of-use assets	15	10,339	9,397	8,840	8,475
Deferred tax assets	23	21	291	459	1,332
Non-current prepayments		—	—	493	909
Total non-current assets		19,507	17,383	17,031	18,012
CURRENT ASSETS					
Inventories	16	9,014	7,323	6,700	15,831
Trade receivables	17	15,867	19,546	6,018	61,314
Prepayments, deposits and other receivables	18	1,428	1,887	579	2,510
Cash and cash equivalents	19	5,581	27,611	8,136	14,461
Total current assets		31,890	56,367	21,433	94,116
CURRENT LIABILITIES					
Trade payables	20	7,064	18,079	3,127	8,011
Other payables and accruals	21	7,081	5,764	4,905	17,673
Interest-bearing bank and other borrowings	22	3,790	189	196	21,098
Tax payable		—	1,440	369	6,249
Total current liabilities		17,935	25,472	8,597	53,031
NET CURRENT ASSETS		13,955	30,895	12,836	41,085
TOTAL ASSETS LESS CURRENT LIABILITIES		33,462	48,278	29,867	59,097

I. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

B) Statements of financial position (continued)

		As at 31 December			As at 30 June
	Notes	**2017**	**2018**	**2019**	**2020**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings		862	628	421	314
Total non-current liabilities		862	628	421	314
Net assets		32,600	47,650	29,446	58,783
EQUITY					
Issued capital	24	23,381	23,381	23,381	23,381
Reserves	25	9,219	24,269	6,065	35,402
Total equity		32,600	47,650	29,446	58,783

I. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

C) Statements of changes in equity

	Issued capital HK$'000 (Note 24)	Statutory surplus reserve HK$'000 (Note 25)	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 January 2017	23,381	1,300	1,816	7,361	33,858
Profit for the year	—	—	—	5,867	5,867
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	—	—	2,410	—	2,410
Total comprehensive income for the year	—	—	2,410	5,867	8,277
Transfer from retained profits	—	587	—	(587)	—
Dividends paid	—	—	—	(9,535)	(9,535)
At 31 December 2017 and 1 January 2018	23,381	1,887#	4,226#	3,106#	32,600
Profit for the year	—	—	—	17,457	17,457
Other comprehensive loss for the year:					
Exchange differences on translation of foreign operations	—	—	(2,407)	—	(2,407)
Total comprehensive income for the year	—	—	(2,407)	17,457	15,050
Transfer from retained profits	—	1,746	—	(1,746)	—
At 31 December 2018 and 1 January 2019	23,381	3,633#	1,819#	18,817#	47,650
Profit for the year	—	—	—	2,337	2,337
Other comprehensive loss for the year:					
Exchange differences on translation of foreign operations	—	—	(571)	—	(571)
Total comprehensive income for the year	—	—	(571)	2,337	1,766
Transfer from retained profits	—	234	—	(234)	—
Dividends paid	—	—	—	(19,970)	(19,970)
At 31 December 2019	23,381	3,867#	1,248#	950#	29,446

I. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

C) Statements of changes in equity (continued)

	Issued capital *HK$'000* *(Note 24)*	Statutory surplus reserve *HK$'000* *(Note 25)*	Exchange fluctuation reserve *HK$'000*	Retained profits *HK$'000*	Total equity *HK$'000*
At 1 January 2020	23,381	3,867	1,248	950	29,446
Profit for the period	—	—	—	32,902	32,902
Other comprehensive loss for the period:					
Exchange differences on translation of foreign operations	—	—	(747)	—	(747)
Total comprehensive income for the period:	—	—	(747)	32,902	32,155
Transfer from retained profits	—	3,290	—	(3,290)	—
Dividends paid	—	—	—	(2,818)	(2,818)
At 30 June 2020	23,381	7,157#	501#	27,744#	58,783
At 1 January 2019	23,381	3,633	1,819	18,817	47,650
Profit for the period	—	—	—	2,010	2,010
Other comprehensive loss for the period:					
Exchange differences on translation of foreign operations	—	—	(58)	—	(58)
Total comprehensive income for the period	—	—	(58)	2,010	1,952
Transfer from retained profits	—	201	—	(201)	—
At 30 June 2019	23,381	3,834	1,761	20,626	49,602

These reserve accounts comprise the reserves of HK$9,219,000, HK$24,269,000, HK$6,065,000 and HK$35,402,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, in the statements of financial position.

I. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

D) Statements of cash flows

	Notes	Year ended 31 December 2017 HK$'000	2018 HK$'000	2019 HK$'000	For the six months ended 30 June 2019 HK$'000	2020 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		7,937	23,354	3,079	2,664	43,914
Adjustments for:						
Finance costs	8	188	133	36	19	123
Bank interest income	6	(11)	(21)	(130)	(75)	(110)
Impairment of trade receivables	17	26	831	512	1,196	3,003
Impairment of inventories, net		—	300	189	435	546
Depreciation of items of property, plant and equipment	14	737	1,024	451	226	145
Depreciation of right-of-use assets	15	408	420	401	201	195
(Increase)/decrease in inventories		(4,086)	1,391	434	397	(9,677)
(Increase)/decrease in trade receivables		(4,364)	(5,827)	4,707	(45)	(58,298)
Decrease/(increase) in prepayments, deposits and other receivables		199	(23)	381	562	(1,931)
Increase/(decrease) in trade payables		601	170	(1,297)	(1,145)	3,406
Increase/(decrease) in other payables and accruals		680	(1,317)	(859)	(69)	12,768
Decrease in amounts due from related parties		13,897	881	9,237	9,236	—
(Decrease)/increase in amounts due to related parties		(1,847)	10,845	(13,656)	(13,690)	1,478
Cash generated from/(used in) operations		14,365	32,161	3,485	(88)	(4,438)
Interest element on lease liabilities		(54)	(47)	(36)	(19)	(14)
Withholding tax paid		(477)	—	(999)	(1,017)	(141)
PRC tax paid		(2,712)	(4,728)	(1,978)	(2,016)	(5,978)
Net cash flows from/(used in) operating activities		11,122	27,386	472	(3,140)	(10,571)

I. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

D) Statements of cash flows (continued)

		Year ended 31 December			For the six months ended 30 June	
	Notes	**2017**	**2018**	**2019**	**2019**	**2020**
		HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of property, plant and equipment		(1,458)	—	(493)	(90)	(638)
Interest received from bank		11	21	130	75	110
Net cash flows (used in)/from investing activities		(1,447)	21	(363)	(15)	(528)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans		3,459	593	—	—	21,023
Repayment of bank loans		(3,459)	(4,151)	—	—	—
Dividend paid		(9,535)	—	(19,970)	—	(2,818)
Interest paid		(134)	(86)	—	—	(109)
Principal portion of lease payments		(170)	(185)	(188)	(95)	(95)
Net cash flows (used in)/from financing activities		(9,839)	(3,829)	(20,158)	(95)	18,001
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(164)	23,578	(20,049)	(3,250)	6,902
Exchange realignment		1,919	(1,548)	574	1,645	(577)
Cash and cash equivalents at beginning of year/period		3,826	5,581	27,611	27,611	8,136
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	19	5,581	27,611	8,136	26,006	14,461

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Target is a limited liability company incorporated in Mainland China on 14 April 2006. The Target's registered office address is No.628, Jufeng North Road, Aotou Town, Conghua District, Guangzhou City, Guangdong Province, the People's Republic of China (the "**PRC**").

The Target is engaged in the content filling of aerosol cans, and the production and sale of aerosol products and household products.

As at the date of this report, the Target has no direct or indirect interests in any subsidiaries.

As at the date of this report, the statutory audited financial statements for the year ended 31 December 2017, 2018 and 2019 were prepared in accordance with the Accounting Standards for Business Enterprises issued by the PRC Ministry of Finance and other related regulations (collectively, the "**PRC GAAP**") and were audited by Guangzhou Zhongding Certified Public Accountants Co., Ltd. (廣州中鼎會計師事務所有限公司), certified public accountants registered in the PRC. No statutory audited financial statements for the six months ended 30 June 2020 have been prepared for the Target, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

2. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with IFRSs as issued by IASB, and has been prepared under the historical cost convention.

3. ISSUED BUT NOT YET EFFECTIVE IFRSs

The Target has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in the Historical Financial Information.

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[1]
Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IFRS 16	*COVID-19-Related Rent Concessions*[4]
Amendments to IAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[2]
Amendments to IFRS Standard	*Annual Improvements to IFRS Standards 2018-2020*[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 No mandatory effective date yet determined but available for adoption
4 Effective for annual periods beginning on or after 1 June 2020

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

3. ISSUED BUT NOT YET EFFECTIVE IFRSs (CONTINUED)

The Target is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. The Target has expected that these standards will not have significant effect on the Target's financial performance and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Target; or

(iii) is a member of the key management personnel of the Target or of a parent of the Target;

or

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target are members of the same group;

(ii) one entity is an associate or joint venture of the Target (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target or an entity related to the Target;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target or to the parent of the Target.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of that asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings and plant	4.5%
Office and other equipment	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Leases

The Target assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Target as a lessee

The Target applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Target as a lessee (continued)

(a) Right-of-use assets

The Target recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	50 years
Buildings	6 years

If ownership of the leased asset transfers to the Target by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

At the commencement date of the lease, the Target recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target and payments of penalties for terminating a lease, if the lease term reflects the Target exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Target as a lessee (continued)

(c) Short-term leases and leases of low-value assets

The Target applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the low-value assets lease recognition exemption to leases that are considered of low value (i.e., below US$5,000). Lease payments on short-term leases and of low-value assets leases are recognised as expense on a straight-line basis over the lease terms.

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target has applied the practical expedient of not adjusting the effect of a significant financing component, the Target initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Target can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statements of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Target and the amount of the dividend can be measured reliably, except when the Target benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statements of profit or loss and other comprehensive income.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

This category includes derivative instruments and equity investments which the Target had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Target and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statements of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The loss arising from impairment is recognised in other expenses for receivables.

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target has transferred substantially all the risks and rewards of the asset, or (b) the Target has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target continues to recognise the transferred asset to the extent of the Target's continuing involvement. In that case, the Target also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target has retained.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018) (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target could be required to repay.

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Target recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target may also consider a financial asset to be in default when internal or external information indicates that the Target is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1: Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2: Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3: Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Target applies the practical expedient of not adjusting the effect of a significant financing component, the Target applies the simplified approach in calculating ECLs. Under the simplified approach, the Target does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Target assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Target first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

The Target's financial liabilities include trade and other payables and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statements of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statements of profit or loss and other comprehensive income.

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statements of profit or loss and other comprehensive income.

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statements of profit or loss and other comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Target operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of industrial products

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Income from research and development (R&D) design is recognised when the relevant R&D service has been rendered at a point in time.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee retirement benefits

The employees of the Target's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Target is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Target's memorandum and articles of association grant the sole director the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Company's functional currency. The Target determines its own functional currency and items included in the financial statements are measured using that functional currency. Foreign currency transactions recorded by the Target are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Target initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Target determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain foreign operations are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the statements of cash flows, the cash flows of the Target's foreign operations are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the foreign operations which arise throughout the reporting period are translated into Hong Kong dollars at the weighted average exchange rates for each of the reporting period.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgement

In the process of applying the Target's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the Historical Financial Information:

Tax

Determining income tax provisions requires the Target to make judgements on the future tax treatment of certain transactions. The Target carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Target has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Target with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of property, plant and equipment at 31 December 2017, 2018 and 2019 and 30 June 2020 were HK$9,147,000, HK$7,695,000, HK$7,239,000 and HK$7,296,000, respectively. Further details are given in note 14.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Write-down of inventories to net realisable value

A write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the required write-down involves management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which the estimate has been changed.

Impairment of trade receivables and other receivables (Applicable before 1 January 2018)

The Target estimates the provisions for impairment of trade receivables by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Provisions are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, the difference will affect the carrying amount of trade receivables and thus the impairment loss in the period in which the estimate is changed. The Target reassesses the provisions at the end of each of the reporting period.

Provision for expected credit losses on trade receivables (Applicable after 1 January 2018)

The Target uses a provision matrix to calculate ECLs for trade receivables. 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.

The provision matrix is initially based on the Target's historical observed default rates. The Target will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecasted economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates will be adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

The assessment of the correlation among historical observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecasted economic conditions. The Target's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Target's trade receivables is disclosed in note 17 to the financial statements.

Other receivables are assessed for impairment based on 12-month expected credit losses: 12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the asset is less than 12 months). However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

Leases — Estimating the incremental borrowing rate

The Target cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Target would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Target "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Target estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

6. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of revenue is as follows:

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue from contracts with customers	66,432	126,653	56,444	38,159	144,560

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(a) Disaggregated revenue information

Segments	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*
				(Unaudited)	
Type of goods					
Sale of industrial products	66,432	126,653	56,444	38,159	144,560
Geographical markets					
Mainland China	44,051	95,372	53,161	37,165	70,828
Japan	1,544	113	—	—	1,655
Asia	20,837	5,147	2,308	—	61,701
America	—	26,002	975	994	9,773
Others	—	19	—	—	603
Total revenue from contracts with customers	66,432	126,653	56,444	38,159	144,560
Timing of revenue recognition					
Goods transferred at a point in time	66,432	126,653	56,444	38,159	144,560

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

The following table shows the amounts of revenue recognised during the Relevant Periods and six months ended 30 June 2019 that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue recognised that was included in the contract liabilites at the beginning of the reporting period:					
Sale of industrial products	1,605	2,042	2,060	2,060	1,910

(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.

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

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Amounts expected to be recognised as revenue:					
Within one year	2,042	2,060	1,910	2,075	2,069

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Other income and gains

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Sale of scrap materials	12	65	30	9	834
Bank interest income	11	21	130	75	110
Government grants:					
— Related to income*	322	—	6	—	—
Foreign exchange differences, net	—	697	251	214	88
Others	36	85	49	24	21
	381	868	466	322	1,053

* Various government grants of HK$322,000, nil, HK$6,000, nil and nil during the Relevant Periods and six months ended 30 June 2019 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

7. PROFIT BEFORE TAX

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

		Year ended 31 December			For the six months ended 30 June	
		2017	**2018**	**2019**	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Cost of inventories sold		50,266	91,315	41,614	26,716	89,153
Depreciation of property, plant and equipment	14	737	1,024	451	226	145
Depreciation of right-of-use assets	15	408	420	401	201	195
Auditors' remuneration		1,423	2,302	1,544	1,510	193
Research and development costs		233	991	2,281	1,431	162
Lease payments not included in the measurement of lease liabilities		36	5	—	—	2
Employee benefit expense (including the sole director's remuneration (note 9)):						
Wages and salaries		5,582	7,783	5,818	3,020	2,830
Pension scheme contributions		852	926	771	417	317
		6,434	8,709	6,589	3,437	3,147
Foreign exchange differences, net*		330	(697)	(251)	(214)	(88)
Impairment of trade receivables	17	26	831	512	1,196	3,003
Write-down of inventories to net realisable value**		—	300	189	435	546

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

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

8. FINANCE COSTS

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on interest-bearing bank borrowings	134	86	—	—	109
Interest on lease liabilities (note 15)	54	47	36	19	14
	188	133	36	19	123

9. THE DIRECTOR'S REMUNERATION

The director's remuneration during the Relevant Periods and six months ended 30 June 2019, disclosed pursuant to the Listing Rules, section 383 (1) (a),(b),(c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries, allowances and benefits in kind					
Ms. Lin Hing Lei	—	—	—	—	—
Mr. Lin Wan Tsang*	166	—	—	—	—
	166	—	—	—	—

* On 5 January 2018, Mr. Lin Wan Tsang resigned as a director of the Company.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Target during the Relevant Periods and six months ended 30 June 2019 are analysed as follows:

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
				(Unaudited)	
Director	1	—	—	—	—
Non-director employees	4	5	5	5	5

Details of the remuneration of the above non-director highest paid employees during the Relevant Periods are as follows:

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	482	699	621	364	374
Pension scheme contributions	23	27	31	17	14
	505	726	652	381	388

The number of the non-director highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
				(Unaudited)	
Nil to HK$500,000	4	5	5	5	5

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

11. INCOME TAX EXPENSE

The Target is subject to income tax on profits arising in or derived from the jurisdictions in which the Target are domiciled and operated.

Pursuant to the PRC Income Tax Law and the respective regulations, the Target was subject to Corporate Income Tax ("**CIT**") at a rate of 25% on the taxable income during the Relevant Periods and six months ended 30 June 2019.

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Current - Mainland China	2,064	5,614	567	305	10,125
Deferred (note 23)	6	283	175	349	887
Total tax charge for the year/period	2,070	5,897	742	654	11,012

A reconciliation of the income tax expense applicable to profit before tax using the statutory rate for the location in which the Target is domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable tax rate to the effective tax rate, are as follows:

	Year ended 31 December						For the six months ended 30 June			
	2017		**2018**		**2019**		**2019**		**2020**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	7,937		23,354		3,079		2,664		43,914	
Tax at the statutory tax rate	1,984	25	5,839	25	770	25	666	25	10,979	25
Expenses not deductible for tax	86	1	8	0	—	—	—	—	—	—
Adjustment in respect of current tax of previous periods	—	—	50	0	(28)	(1)	(12)	(0)	33	0
Tax charge at the Target's effective tax rate	2,070	26	5,897	25	742	24	654	25	11,012	25

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

12. DIVIDENDS

The dividends declared by the Target to the shareholders during the Relevant Period and six months ended 30 June 2019 were as follows:

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Dividend	9,535	—	19,970	—	2,818

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

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings and plant	**Office and other equipment**	**Construction in progress**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2017				
At 1 January 2017:				
Cost	6,151	1,235	3,402	10,788
Accumulated depreciation	(2,120)	(821)	—	(2,941)
Net carrying amount	4,031	414	3,402	7,847
At 1 January 2017, net of accumulated depreciation	4,031	414	3,402	7,847
Additions	620	—	838	1,458
Depreciation provided during the year (note 7)	(608)	(129)	—	(737)
Exchange realignment	297	25	257	579
At 31 December 2017, net of accumulated depreciation	4,340	310	4,497	9,147

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings and plant	Office and other equipment	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017:				
Cost	6,227	1,327	4,497	12,051
Accumulated depreciation	(1,887)	(1,017)	—	(2,904)
Net carrying amount	4,340	310	4,497	9,147
31 December 2018				
At 1 January 2018:				
Cost	6,227	1,327	4,497	12,051
Accumulated depreciation	(1,887)	(1,017)	—	(2,904)
Net carrying amount	4,340	310	4,497	9,147
At 1 January 2018, net of accumulated depreciation	4,340	310	4,497	9,147
Depreciation provided during the year (note 7)	(891)	(133)	—	(1,024)
Exchange realignment	(191)	(2)	(235)	(428)
At 31 December 2018, net of accumulated depreciation	3,258	175	4,262	7,695
At 31 December 2018:				
Cost	5,902	1,266	4,262	11,430
Accumulated depreciation	(2,644)	(1,091)	—	(3,735)
Net carrying amount	3,258	175	4,262	7,695
31 December 2019				
At 1 January 2019:				
Cost	5,902	1,266	4,262	11,430
Accumulated depreciation	(2,644)	(1,091)	—	(3,735)
Net carrying amount	3,258	175	4,262	7,695

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings and plant *HK$'000*	Office and other equipment *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
At 1 January 2019, net of accumulated depreciation	3,258	175	4,262	7,695
Depreciation provided during the year (note 7)	(351)	(100)	—	(451)
Exchange realignment	36	32	(73)	(5)
At 31 December 2019, net of accumulated depreciation	2,943	107	4,189	7,239
At 31 December 2019:				
Cost	5,888	1,278	4,189	11,355
Accumulated depreciation	(2,945)	(1,171)	—	(4,116)
Net carrying amount	2,943	107	4,189	7,239
30 June 2020				
At 1 January 2020:				
Cost	5,888	1,278	4,189	11,355
Accumulated depreciation	(2,945)	(1,171)	—	(4,116)
Net carrying amount	2,943	107	4,189	7,239
At 1 January 2020, net of accumulated depreciation	2,943	107	4,189	7,239
Additions	—	—	222	222
Depreciation provided during the period (note 7)	(141)	(4)	—	(145)
Exchange realignment	62	(2)	(80)	(20)
At 30 June 2020, net of accumulated depreciation	2,864	101	4,331	7,296
At 30 June 2020:				
Cost	5,892	1,253	4,331	11,476
Accumulated depreciation	(3,028)	(1,152)	—	(4,180)
Net carrying amount	2,864	101	4,331	7,296

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All of the Target's buildings and plant are located in Mainland China. As at the date of this report, the Target has not obtained real estate certificates for all the above buildings and plant.

15. LEASE

The Target as a lessee

The Target has lease contracts for various items used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms 6 years. Generally, the Target is restricted from assigning and subleasing the leased assets outside the Target.

(a) Right-of-use assets

The carrying amounts of the Target's right-of-use assets and the movements during the Relevant Periods are as follows:

	Prepaid land lease payments	Buildings	Total
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2017	8,866	1,141	10,007
Depreciation charge	(212)	(196)	(408)
Exchange realignment	663	77	740
As at 31 December 2017 and 1 January 2018	9,317	1,022	10,339
Depreciation charge	(218)	(202)	(420)
Exchange realignment	(477)	(45)	(522)
As at 31 December 2018 and 1 January 2019	8,622	775	9,397
Depreciation charge	(208)	(193)	(401)
Exchange realignment	(145)	(11)	(156)
As at 31 December 2019 and 1 January 2020	8,269	571	8,840
Depreciation charge	(101)	(94)	(195)
Exchange realignment	(160)	(10)	(170)
As at 30 June 2020	8,008	467	8,475

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

15. LEASE (CONTINUED)

The Target as a lessee (continued)

Certain of the Target's interest-bearing bank borrowings were secured by the Target's prepaid land lease payments with carrying values of HK$9,317,000, HK$8,622,000, nil, and HK$8,008,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020 (note 22).

The Target's leasehold land is held under a medium-term lease and is situated in Mainland China.

(b) Lease liabilities

The carrying amounts of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the Relevant Periods are as follows:

	Year ended 31 December			For the six months ended 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount at beginning of the year/period	1,141	1,050	817	617
Accretion of interest recognised during the year/period	54	47	36	14
Payments	(224)	(232)	(224)	(109)
Exchange realignment	79	(48)	(12)	(11)
Carrying amount at end of the year/period	1,050	817	617	511
Analysed into:				
Current portion	188	189	196	197
Non-current portion	862	628	421	314

The maturity analysis of lease liabilities is disclosed in note 22 to the Historical Financial Information.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

16. INVENTORIES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	5,364	3,569	2,705	4,531
Work in process	120	66	101	74
Finished goods	3,530	3,688	3,894	11,226
	9,014	7,323	6,700	15,831

17. TRADE RECEIVABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	15,951	20,423	7,385	65,640
Impairment	(84)	(877)	(1,367)	(4,326)
Trade receivables, net	15,867	19,546	6,018	61,314

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

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

The Target 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.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

17. TRADE RECEIVABLES (CONTINUED)

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

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	3,912	868	3,567	12,405
31 to 60 days	1,969	9,380	1,272	42,506
61 to 90 days	2,917	427	60	3,905
Over 90 days	7,069	8,871	1,119	2,498
	15,867	19,546	6,018	61,314

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

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of year/period	53	84	877	1,367
Impairment losses (note 7)	26	831	512	3,003
Exchange realignment	5	(38)	(22)	(44)
At end of year/period	84	877	1,367	4,326

Impairment under IAS 39 for the year ended 31 December 2017

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

			Past due but not impaired	
	Total	**Neither past due nor impaired**	**Less than 90 days**	**Over 90 days**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2017	15,867	8,798	—	7,069

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

17. TRADE RECEIVABLES (CONTINUED)

The trade receivables that were neither past due nor impaired related to a number of diversified customers for whom there was no recent history of default.

The trade receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Target. Based on past experience, the directors of the Target were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Impairment under IFRS 9 for the years/period ended 31 December 2018 and 2019 and for the six months ended 30 June 2020

From 1 January 2018, the Target has applied the simplified approach to providing impairment for ECLs on trade receivables prescribed by IFRS 9. An impairment analysis is performed at 31 December 2018, 2019 and 30 June 2020 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 31 December 2018, 2019 and 30 June 2020 about past events, current conditions and forecast of future economic conditions.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

17. TRADE RECEIVABLES (CONTINUED)

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

	Ageing				
	1 to 30 days	**31 to 60 days**	**61 to 90 days**	**Over 90 days**	**Total**
As at 31 December 2018					
Related parties:					
Expected credit loss rate	—	—	—	—	—
Gross carrying amount (HK$'000)	21	—	205	8,083	8,309
Expected credit losses (HK$'000)	—	—	—	—	—
Non-related parties:					
Expected credit loss rate	—	—	—	52.66%	7.24%
Gross carrying amount (HK$'000)	847	9,380	222	1,665	12,114
Expected credit losses (HK$'000)	—	—	—	877	877
Total expected credit losses (HK$'000)					877
As at 31 December 2019					
Non-related parties:					
Expected credit loss rate	0.02%	2.58%	7.67%	54.29%	18.51%
Gross carrying amount (HK$'000)	3,568	1,306	65	2,446	7,385
Expected credit losses (HK$'000)	1	34	5	1,327	1,367
Total expected credit losses (HK$'000)					1,367
As at 30 June 2020					
Non-related parties:					
Expected credit loss rate	0.08%	2.09%	6.11%	55.80%	6.59%
Gross carrying amount (HK$'000)	12,415	43,412	4,159	5,654	65,640
Expected credit losses (HK$'000)	10	907	254	3,155	4,326
Total expected credit losses (HK$'000)					4,326

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	56	106	90	1,740
Deposits and other receivables	880	853	489	770
Due from related parties	492	928	—	—
	1,428	1,887	579	2,510

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	5,581	27,611	8,136	14,461
Cash and bank balances denominated in				
— Renminbi ("**RMB**")	4,248	5,557	8,133	5,806
— United States dollars ("**US$**")	1,333	22,054	3	8,655
Cash and cash equivalents	5,581	27,611	8,136	14,461

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and *Administration of Settlement, Sale and Payment of Foreign Exchange Regulations*, the Target is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

20. TRADE PAYABLES

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

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	4,399	4,074	2,789	6,094
31 to 60 days	1,461	2,916	176	719
61 to 90 days	1,093	2,478	86	763
Over 90 days	111	8,611	76	435
	7,064	18,079	3,127	8,011

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days. The carrying amounts of the trade payables approximate to their fair values.

21. OTHER PAYABLES AND ACCRUALS

		As at 31 December			As at 30 June
		2017	**2018**	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Contract liabilities	(a)	2,042	2,060	1,910	2,069
Salary and welfare payables	(b)	2,306	2,069	1,675	1,326
Other payables and accruals	(c)	2,733	1,635	1,320	14,278
		7,081	5,764	4,905	17,673

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

21. OTHER PAYABLES AND ACCRUALS (CONTINUED)

Notes:

(a) Contract liabilities of the Target mainly arise from the advance payments made by customers while the underlying goods are yet to be provided. The Target recognised the following revenue-related contract liabilities at the end of each of the Relevant Periods:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Short-term advances received from customers	2,042	2,060	1,910	2,069

(b) The salary and welfare payables are non-interest-bearing and are payable on demand.

(c) The other payables and accruals are non-interest-bearing and are due to mature within one year.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December 2017			As at 31 December 2018			As at 31 December 2019			As at 30 June 2020		
	Effective interest rate	*Maturity*	*HK$'000*	*Effective interest rate*	*Maturity*	*HK$'000*	*Effective interest rate*	*Maturity*	*HK$'000*	*Effective interest rate*	*Maturity*	*HK$'000*
Current												
Interest-bearing bank loans - secured	PBOC base rate +1.14%	2018	3,602			—			—	2.5%	2021	20,901
Lease liabilities (note 15(b))	4.9%	2018	188	4.9%	2019	189	4.9%	2020	196	4.9%	2021	197
			3,790			189			196			21,098
Non-current												
Lease liabilities (note 15(b))	4.9%	2022	862	4.9%	2022	628	4.9%	2022	421	4.9%	2022	314
			4,652			817			617			21,412

Note: "PBOC" stands for the People's Bank of China (中國人民銀行), the central bank of the PRC.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans and overdrafts repayable:				
Within one year or on demand	3,602	—	—	20,901
Other borrowings repayable:				
Within one year or on demand	188	189	196	197
In the second year	—	—	—	314
In the third year	—	—	421	—
Over three years	862	628	—	—
	1,050	817	617	511

All interest-bearing bank borrowings of the Target are denominated in RMB.

The Target has the following undrawn banking facilities at the end of each of the Relevant Periods:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At floating rate				
- expiring within one year	8,405	11,380	—	1,036

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

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Prepaid land lease payments	15	9,317	8,622	—	8,008

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

The Target's bank loans amounting to HK$3,602,000 as at 31 December 2017 were guaranteed by Mr. Lin Wan Tsang, the sole director of the Target in 2017.

The Target's banking facilities amounting to HK$8,405,000 and HK$11,380,000 as at 31 December 2017 and 2018 were guaranteed by Mr. Lin Wan Tsang, the sole director of the Target in 2017 and 2018.

23. DEFERRED TAX

Deferred tax assets

The movements in deferred tax assets are as follows:

	Provisions
	HK$'000
At 1 January 2017	13
Charged to profit or loss (note 11)	6
Exchange realignment	2
At 31 December 2017 and 1 January 2018	21
Charged to profit or loss (note 11)	283
Exchange realignment	(13)
At 31 December 2018 and 1 January 2019	291
Charged to profit or loss (note 11)	175
Exchange realignment	(7)
At 31 December 2019 and 1 January 2020	459
Charged to profit or loss (note 11)	887
Exchange realignment	(14)
At 30 June 2020	1,332

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

24. ISSUED CAPITAL

	Number of ordinary shares of US$1 each	Nominal value of ordinary shares
		HK$
Issued and fully paid:		
At 31 December 2017, 2018 and 2019 and 30 June 2020	3,000,000	23,381,059

25. RESERVES

The amounts of the Target's reserves and the movements therein for each of the Relevant Periods are presented in the statements of changes in equity of the Historical Financial Information.

In accordance with the PRC Company Law, the Target are required to allocate 10% of their profit after tax to the statutory surplus reserve (the "**SSR**") until this reserve reaches 50% of the registered capital of the Target. Subject to certain restrictions set out in the PRC Company Law, part of the SSR may be converted to increase paid-up capital/issued capital of the Target, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

26. COMMITMENTS

The Target had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted, but not provided for:				
Plant and machinery	143	—	—	—

27. CONTINGENT LIABILITIES

The Target has no significant contingent liabilities as at 31 December 2017, 2018 and 2019 and 30 June 2020.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

28. RELATED PARTY TRANSACTIONS AND BALANCES

(i) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Target had the following material transactions with related parties during the Relevant Periods and six months ended 30 June 2019:

		Year ended 31 December			For the six months ended 30 June	
		2017	**2018**	**2019**	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Sales of products to:						
European Asia Industrial Limited	(i)	20,837	5,147	—	—	—
Guangzhou Botny Chemical Co., Ltd. ("**Botny Chemical**") (廣州保賜利化工有限公司)	(i)	—	—	—	—	1,212
China Medical Beauty Bio-technology Co., Ltd. ("China Medical Beauty")	(i)	—	24,761	—	—	—
		20,837	29,908	—	—	1,212
Purchases of products from:						
European Asia Industrial Limited	(i)	5,587	1,388	—	—	—
Euro Asia Packaging (Guangdong) Co., Ltd. (廣東歐亞包裝有限公司) ("**Euro Asia Packaging**")	(i)	12,198	17,856	15,618	10,356	18,065
Hong Kong Aluminum Cans Limited	(i)	—	—	810	—	3,032
China Medical Beauty	(i)	—	5,494	—	—	—
		17,785	24,738	16,428	10,356	21,097

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

28. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

		Year ended 31 December			For the six months ended 30 June	
		2017	2018	2019	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Lease rental expenses charged by:						
Guangzhou Shentian Woye Trading Co., Ltd. (廣州深田沃業貿易有限公司) ("**Guangzhou Shentian**")	(ii)	224	232	224	114	109

Notes:

(i) European Asia Industrial Limited, Botny Chemical, China Medical Beauty, Euro Asia Packaging and Hong Kong Aluminum Cans Limited are fellow subsidiaries controlled by the sole director of the Target. The sales and purchases among the companies were made according to prices and conditions as mutually agreed.

(ii) Guangzhou Shentian is a fellow subsidiary controlled by the sole director of the Target. The lease rental expenses charged by Guangzhou Shentian were determined based on the underlying contracts as agreed between the Target and Guangzhou Shentian.

(i) Other transactions with related parties:

	Year ended 31 December			For the six months ended 30 June	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Bank loans guaranteed by:					
Mr. Lin Wan Tsang*	3,602	—	—	—	—
Undrawn bank facilities guaranteed by:					
Mr. Lin Wan Tsang*	8,405	11,380	—	—	—

* *The sole director of the Target in 2017*

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

28. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(ii) Balances with related parties

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Due from:				
European Asia Industrial Limited	9,625	—	—	—
Botny Chemical	—	21	—	—
China Medical Beauty	—	8,287	—	—
Guangzhou Botny Car Service Management Co., Ltd. (廣州保賜利汽車服務管理有限公司)	492	928	—	—
	10,117	9,236	—	—
Due to:				
Botny Chemical	—	5	—	—
Euro Asia Packaging	2,503	8,933	805	2,103
Hong Kong Aluminum Cans Limited	—	—	385	564
China Medical Beauty	—	5,908	—	—
European Asia Industrial Limited	1,497	—	—	—
	4,000	14,846	1,190	2,667

These balances are unsecured, interest-free and repayable on demand. The carrying amounts of these balances approximate to their fair values.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

28. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(iii) Compensation of key management personnel of the Target

	Year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	482	699	621	364	374
Pension scheme contributions	23	27	31	17	14
	505	726	652	381	388

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Trade and bills receivables	15,867	19,546	6,018	61,314
Due from related parties	492	928	—	—
Financial assets included in prepayments, deposits and other receivables	880	853	489	770
Cash and cash equivalents	5,581	27,611	8,136	14,461
	22,820	48,938	14,643	76,545

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

29. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities				
Trade payables	7,064	18,079	3,127	8,011
Financial liabilities included in other payables and accruals	2,733	1,635	1,320	14,278
Interest-bearing bank borrowings	4,652	817	617	21,412
	14,449	20,531	5,064	43,701

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

At 31 December 2017, 2018 and 2019 and 30 June 2020, the fair values of the Target's financial assets and financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings approximate to their respective carrying amounts largely due to the short term maturities of these instruments.

The Target's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of each of the Relevant Periods, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the senior management.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target's principal financial instruments comprise interest-bearing bank borrowings, amounts due from related parties, amounts due to related parties and the sole director, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target's operations. The Target has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Target's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The sole director reviews and agrees policies for managing each of these risks and they are summarised below.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

The Target's exposure to the risk of changes in market interest rates relates primarily to the Target's debt obligations with floating interest rates.

The effective interest rates and terms of repayment of the interest-bearing bank borrowings of the Target are set out in note 22 above.

The following table demonstrates the sensitivity to a reasonably possible change in PBOC base rate, with all other variables held constant, of the Target's profit/loss before tax (through the impact of floating rate borrowings) during the Relevant Periods.

	Increase/ (Decrease) in basis points	Increase/ (Decrease) in profit before tax
		HK$'000
Year ended 31 December 2017		
PBOC base rate	25	4
PBOC base rate	(25)	(4)
Year ended 31 December 2018		
PBOC base rate	25	—
PBOC base rate	(25)	—
Year ended 31 December 2019		
PBOC base rate	25	—
PBOC base rate	(25)	—
For the six months ended 30 June 2020		
PBOC base rate	25	21
PBOC base rate	(25)	(21)

Foreign currency risk

The Target has transactional currency exposures. Such exposures arise from sales in currencies other than the units' functional currency. Approximately 34%, 46%, 6% and 51% of the Target's sales were denominated in currencies other than the functional currency of the operating units making the sale for the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020, respectively.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the exchange rate, with all other variables held constant, of the Target's profit/loss before tax.

	Increase/ (Decrease) in exchange rate	Increase/ (Decrease) in profit before tax
	%	*HK$'000*
Year ended 31 December 2017		
If RMB weakens against US$	5	327
If RMB strengthens against US$	(5)	(327)
Year ended 31 December 2018		
If RMB weakens against US$	5	1,941
If RMB strengthens against US$	(5)	(1,941)
Year ended 31 December 2019		
If RMB weakens against US$	5	89
If RMB strengthens against US$	(5)	(89)
For the six months ended 30 June 2020		
If RMB weakens against US$	5	2,683
If RMB strengthens against US$	(5)	(2,683)

Credit risk

The Target trades only with recognised and creditworthy third parties. It is the Target's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Target's exposure to bad debts is not significant.

The credit risk of the Target's other financial assets, which mainly comprise cash and cash equivalents and financial assets included in prepayments, deposits and other receivables arise from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Since the Target trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Target had certain concentrations of credit risk as 71%, 58%, 98% and 86% of the Target's trade receivables were due from the Target's certain customers with the five largest balances as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

Further quantitative data in respect of the Target's exposure to credit risk arising from trade receivables are disclosed in note 17 to the Historical Financial Information.

Liquidity risk

The Target's policy is to maintain sufficient cash and cash equivalents and have available funding through capital contribution and financial support from related parties and bank borrowings.

The maturity profile of financial liabilities as at 31 December 2017, 2018 and 2019 and 30 June 2020, based on the contractual undiscounted payments, was as follows:

	As at 31 December 2017			
	On demand	**Less than 1 year**	**Over 1 year**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	111	6,953	—	7,064
Financial liabilities included in other payables and accruals	—	2,733	—	2,733
Lease liabilities	—	188	862	1,050
Interest-bearing bank borrowings	—	3,701	—	3,701
	111	13,575	862	14,548

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	As at 31 December 2018			
	On demand	Less than 1 year	Over 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	8,611	9,468	—	18,079
Financial liabilities included in other payables and accruals	—	1,635	—	1,635
Lease liabilities	—	189	628	817
	8,611	11,292	628	20,531

	As at 31 December 2019			
	On demand	Less than 1 year	Over 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	76	3,051	—	3,127
Financial liabilities included in other payables and accruals	—	1,320	—	1,320
Lease liabilities	—	196	421	617
	76	4,567	421	5,064

	As at 30 June 2020			
	On demand	Less than 1 year	Over 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	435	7,576	—	8,011
Financial liabilities included in other payables and accruals	—	14,278	—	14,278
Lease liabilities	—	197	314	511
Interest-bearing bank borrowings	—	21,352	—	21,352
	435	43,403	314	44,152

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (CONTINUED)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objective of the Target's capital management is to safeguard the Target's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Target manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020.

The Target monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt is calculated as interest-bearing bank borrowings, trade payables, financial liabilities included in other payables and accruals less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The Target's policy is to keep the gearing ratio at a reasonable level. The gearing ratios at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank borrowings	4,652	817	617	21,412
Trade payables	7,064	18,079	3,127	8,011
Financial liabilities included in other payables and accruals	2,733	1,635	1,320	14,278
Less: Cash and cash equivalents	(5,581)	(27,611)	(8,136)	(14,461)
Net debt	8,868	(7,080)	(3,072)	29,240
Equity attributable to owners of the parent	32,600	47,650	29,446	58,783
Capital and net debt	41,468	40,570	26,374	88,023
Gearing ratio	21%	(17%)	(12%)	33%

III. EVENT AFTER THE RELEVANT PERIODS

On 4 September 2020, 30% of the issued share capital of the Company was acquired by China Medical Beauty Bio-Technology Company Limited, an indirect wholly-owned subsidiary of the Company .

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target in respect of any period subsequent to 30 June 2020.

(A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

(i) Basis of preparation of the unaudited pro forma statement of assets and liabilities of the Group

To provide additional financial information, the unaudited pro forma statement of assets and liabilities (the "**Unaudited Pro Forma Financial Information**") of the group, has been prepared based on:

(a) the interim condensed consolidated statement of financial position of the Group as at 30 June 2020, which has been extracted from the Company's published interim report for the six months ended 30 June 2020; and

(b) after taking into account of the unaudited pro forma adjustments as described in the notes to the Unaudited Pro Forma Financial Information to demonstrate how the proposed acquisition of the remaining approximately 30% equity interest in Guangzhou Euro Asia (the "**30% Acquisition**") might have affected the historical financial information in respect of the Group as if the 30% Acquisition had been completed on 30 June 2020 for the unaudited pro forma consolidated statement of financial position.

The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the financial information contained in this circular and the accountants' reports on the Guangzhou Euro Asia (the "**Target**") as set out in Appendix II to this circular.

The Unaudited Pro Forma Financial Information of the Group has been prepared by the Directors of the Company for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at the specified dates, where applicable, or any future dates.

(A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP (CONTINUED)

(ii) Unaudited Pro Forma Consolidated Statement of Financial Position of the Group

	The Group	Pro Forma adjustments	Enlarged Group
	Note 1	*Note 2*	
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	123,611		123,611
Right-of-use assets	60,630		60,630
Deferred tax assets	3,001		3,001
Non-current prepayments	18,081		18,081
Total non-current assets	205,323		205,323
CURRENT ASSETS			
Inventories	58,498		58,498
Trade and bills receivables	90,529		90,529
Prepayments, deposits and other receivables	13,654		13,654
Pledged bank deposits	3,625		3,625
Cash and cash equivalents	100,940		100,940
Total current assets	267,246		267,246
CURRENT LIABILITIES			
Trade and bills payables	51,464		51,464
Other payables and accruals	55,879	120,000	175,879
Interest-bearing bank and other borrowings	38,491		38,491
Tax payable	9,750		9,750
Deferred income	219		219
Total current liabilities	155,803	120,000	275,803
NET CURRENT ASSETS	111,443	(120,000)	(8,557)
TOTAL ASSETS LESS CURRENT LIABILITIES	316,766	(120,000)	196,766

(A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP (CONTINUED)

(ii) Unaudited Pro Forma Consolidated Statement of Financial Position of the Group (continued)

	The Group	Pro Forma adjustments	Enlarged Group
	Note 1	*Note 2*	
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	4,173		4,173
Deferred tax liabilities	2,588		2,588
Deferred income	1,645		1,645
Total non-current liabilities	8,406		8,406
NET ASSETS	308,360	(120,000)	188,360
EQUITY			
Equity attributable to owners of the parent			
Share capital	2,335		2,335
Reserves	295,119	(109,027)	186,092
	297,454		188,427
Non-controlling interests	10,906	(10,973)	(67)
Total equity	308,360	(120,000)	188,360

Notes to the Unaudited Pro Forma Financial Information

1. The assets and liabilities of the Group are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 as set out in the published interim report of the Group for the six months ended 30 June 2020.

2. The adjustment represents the effect of the transfer of the minority interest of HK$10,973,000 to equity attributable to owners of the Company. The difference between the consideration and the minority interest is adjusted in equity attributable to owners of the Company.

3. No adjustment has been made to reflect the transaction costs relating to the 30% Acquisition since the Directors cannot reliably estimate the amounts involved at this stage but believe such amounts will not be significant.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular, in respect of the unaudited pro forma financial information of the Group.

EY 安永

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

8 December 2020

To the Directors of Precious Dragon Technology Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Precious Dragon Technology Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities of the Group as at 30 June 2020 and related notes as set out in Appendix III of the circular dated 8 December 2020 issued by the Company (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on page III-1 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the remaining approximately 30% equity interest in Guangzhou Euro Asia Aerosol & Household Products Manufacture Co., Limited (the "30% Acquisition") on the Group's financial position as at 30 June 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's interim condensed consolidated financial statements for the six months ended 30 June 2020, on which a review report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION (CONTINUED)

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the 30% Acquisition on the unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION (CONTINUED)

Reporting accountants' responsibilities (continued)

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
8 December 2020

This discussion of the financial position and results of operations of the Target Company is based upon and should be read in conjunction with the Accountant's Report on the Target Company set out in Appendix II to this circular.

1. BUSINESS OVERVIEW

The Target Company is a company incorporated on 17 April 2006 in the PRC with limited liability and is primarily engaged in the design, development, manufacture and sale of personal care products (such as hand sanitiser, foaming facial wash, sunscreen, moisturiser, deodoriser and hand wash) and other products including household products (such as paint and floor polish). For the six months ended 30 June 2020, the Group has developed a series of new sanitizer products to meet the demands under the COVID-19 pandemic. The Target Company sells its products in the PRC and overseas markets, including the United States and Japan. The registered capital of the Target Company is US$3 million.

Currently, the Target Company conducts its operation in the factory (the "**Factory**") located at No. 628 Jufeng North Road, Aotou Town, Conghua District, Guangzhou City, Guangdong Province, the PRC (中國廣東省廣州市從化區鰲頭鎮聚豐北路628號) with a gross floor area of 1,500 square metres which is leased from the Group. The Target Company owns a piece of bare land (the "**Land**") near the Factory with a site area of 63,623 square metres. As at Latest Practicable Date, the Group intended to build a production complex on the Land, which consists of warehouses and production facilities for manufacture of cosmetic products.

2. FINANCIAL REVIEW

The following sets forth the management discussion and analysis of the Target Company for the three years ended 31 December 2019 and the six months ended 30 June 2020 (collectively, the "**Relevant Periods**"), which is based on the financial information of the Target Company as set out in Appendix II to this circular.

Revenue

For the year ended 31 December 2018, revenue of the Target Company increased significantly by approximately 90.7% to approximately HK$126.7 million as compared to the previous year, primarily attributable to (i) the general increase in the number of customers; (ii) the increase in export sales to a major customer in the United States; and (iii) the Group's continuous strategy of placing increasing focus on the personal care market given the higher gross profit margin in general and the increasing demand for personal care products in the PRC.

For the year ended 31 December 2019, revenue of the Target Company decreased significantly by approximately 55.4% to approximately HK$56.4 million as compared to the previous year, mainly due to the significant decline in sales to customers in the PRC and the United States caused by the uncertainties of the Sino-US trade war.

For the six months ended 30 June 2020, revenue of the Target Company increased significantly by approximately 278.8% to approximately HK$144.6 million as compared to the corresponding period in 2019, primarily attributable to (i) the increase in export sales to an independent third party customer in the United States which was conducted through a Hong Kong trading company; (ii) the increase in sales of newly developed sanitizer products to meet the demand under the COVID-19 pandemic; and (iii) the increase in new customers which drove the increase in export sales.

Gross profit and gross profit margin

The gross profit of the Target Company was approximately HK$16.2 million, HK$35.3 million, HK$14.8 million and HK$55.4 million during the Relevant Periods, respectively, which was generally in line with the revenue.

Given (i) the economies of scale arising from the increase in the number of customers and sales volume particularly from the major customer in the United States; (ii) that the Target Company provided more CMS where the raw materials were partly provided by the CMS customers, which generally entailed relatively high gross profit margins given the lower base of revenue that could be charged to such CMS customers as they provided part of the required raw materials; and (iii) that the Target Company sold more personal care products which required it to provide product formulae and specifications to its CMS customers from which the Target Company could charge a higher margin, the gross profit margin of the Target Company increased from approximately 24.3% for the year ended 31 December 2017 to approximately 27.9% for the year ended 31 December 2018.

As a result of the impact of the Sino-US trade war, the gross profit margin of the Target Company decreased slightly from approximately 27.9% for the year ended 31 December 2018 to approximately 26.3% for the year ended 31 December 2019.

The gross profit margin of the Target Company increased significantly to approximately 38.3% for the six months ended 30 June 2020, as compared to approximately 30.0% for the corresponding period in 2019, primarily attributable to sales of products with higher gross profit margins and the decrease in the cost of procurement of major raw materials.

Other income and gains

Other income and gains mainly represent sale of scrap materials, bank interest income, government grants and foreign exchange differences, net. The Target Company recorded other income and gains of approximately HK$381,000, HK$868,000, HK$466,000 and HK$1,053,000 during the Relevant Periods, respectively.

Selling and distribution expenses

Selling and distribution expenses mainly refer to transportation expenses for distribution of products to customers, staff salary, welfare and bonuses attributable to employees engaged in sales and marketing activities, advertising and promotional expenses and travelling expenses. The Target Company incurred selling and distribution expenses of approximately HK$2.2 million, HK$2.1 million, HK$3.8 million and HK$3.0 million during the Relevant Periods, respectively.

The increase in selling and distribution expenses by approximately 79.4% from approximately HK$2.1 million for the year ended 31 December 2018 to approximately HK$3.8 million for the year ended 31 December 2019 was primarily due to the increase in exhibition expenses and advertising and promotional expenses for promoting the products of the Target Company.

Due to the increase in transportation expenses and advertising and promotional expenses for promoting the new sanitizer products of the Target Company, which was in line with the increase in revenue, selling and distribution expenses increased from HK$2.4 million for the six months ended 30 June 2019 to approximately HK$3.0 million for the six months ended 30 June 2020.

Administrative expenses

Administrative expenses primarily consist of staff salary, welfare and bonuses for administrative staff, professional fees, other taxes and surcharges and depreciation expenses. The Target Company incurred administrative expenses of approximately HK$5.1 million, HK$7.6 million, HK$5.4 million and HK$5.2 million during the Relevant Periods, respectively.

Administrative expenses increased by approximately 49.7% from approximately HK$5.1 million for the year ended 31 December 2017 to approximately HK$7.6 million for the year ended 31 December 2018, primarily due to the increase in depreciation and amortisation expenses, other taxes and surcharges and professional fees incurred for the Spin-off, which was partially offset by the decrease in staff salary and welfare mainly due to the decrease in the number of administrative staff for cost saving purpose.

The decrease in administrative expenses by approximately 28.9% from approximately HK$7.6 million for the year ended 31 December 2018 to approximately HK$5.4 million for the year ended 31 December 2019 was mainly attributable to the decrease in staff salary and welfare, depreciation and amortisation expenses, other taxes and surcharges and professional fees.

As a result of the increase in decoration and maintenance expenses for the Target Company's staff quarters, plants, warehouses and other buildings, administrative expenses increased by approximately 42.8% from approximately HK$3.7 million for the six months ended 30 June 2019 to approximately HK$5.2 million for the six months ended 30 June 2020.

Research and development expenses

Research and development expenses, mainly representing material costs, staff salary, welfare and bonuses for research and development personnel, and depreciation expenses, amounted to approximately HK$233,000, HK$991,000, HK$2,281,000 and HK$162,000 during the Relevant Periods, respectively. The fluctuation of research and development expenses during the Relevant Periods was primarily due to the changes in staff salary and welfare and material costs mainly caused by the changes in the number of research and development projects being undertaken.

Impairment losses on financial assets, net

Impairment losses on financial assets, net, representing impairment of trade receivables, were approximately HK$26,000, HK$831,000, HK$512,000 and HK$3.0 million for the Relevant Periods, respectively.

Net profit

As a result of the foregoing, the Target Company's net profit amounted to approximately HK$5.9 million, HK$17.5 million, HK$2.3 million and HK$32.9 million during the Relevant Periods, respectively.

Liquidity and capital resources

During the Relevant Periods, the Target Company mainly financed its operation by cash flows from operation and bank borrowings.

Net current assets

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Target Company had net current assets of approximately HK$14.0 million, HK$30.9 million, HK$12.8 million and HK$41.1 million, respectively. The Target Company's cash and cash equivalents amounted to approximately HK$5.6 million, HK$27.6 million, HK$8.1 million and HK$14.5 million as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, which were mainly denominated in Renminbi and US$. The current ratio of the Target Company was approximately 1.8, 2.2, 2.5 and 1.8 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. As at 30 June 2020, trade receivables of the Target Company amounted to approximately HK$61.3 million. As at the Latest Practicable Date, approximately 96% of the trade receivables of the Target Company as at 30 June 2020 was settled.

Borrowings and pledge of assets

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Target Company had bank borrowings of approximately HK$3.6 million, nil, nil and HK$20.9 million, respectively, with maturity within one year, which were secured by the Target Company's prepaid land lease payments. The effective interest rates of the Target Company's bank borrowings as at 31 December 2017 and 30 June 2020 were 1.14% above PBOC base rate and 2.5%, respectively. The Target Company increased its bank borrowings as at 30 June 2020 for working capital purpose to accommodate the significant business growth in the first half of 2020.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Target Company had undrawn banking facilities of approximately HK$8.4 million, HK$11.4 million, nil and HK$1.0 million, respectively.

Gearing ratio

Gearing ratio, being bank borrowings divided by total equity, was approximately 11.0%, nil, nil and 35.6% as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

Capital structure

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Target Company had 3,000,000 issued shares of US$1 each.

Foreign currency risk

The Target Company has transactional currency exposures. Such exposures arise from sales in currencies other than the operating units' functional currency. Approximately 34%, 46%, 6% and 51% of the Target Company's sales were denominated in currencies other than the functional currency of the operating units making the sale for the three years ended 31 December 2019 and the six months ended 30 June 2020, respectively.

During the Relevant Periods, the Target Company did not enter into any foreign currency forward contracts nor have any outstanding foreign currency forward contracts.

Employees and emoluments policy

As at 30 June 2020, the Target Company had a workforce of 78 employees. The staff costs, including director's remuneration but excluding any contributions to the pension scheme, were approximately HK$5.6 million, HK$7.8 million, HK$5.8 million and HK$2.8 million during the Relevant Periods, respectively. 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.

Significant investments

The Target Company had no significant investments as at 31 December 2017, 2018 and 2019 and 30 June 2020.

Material acquisitions and disposals of assets

The Target Company had no material acquisitions and disposals of assets during the Relevant Periods.

Future plans for material investments or capital assets

The Target Company intends to build a production complex on the Land, which consists of warehouses and production facilities for manufacturing of cosmetic products. Other than that, the Target Company did not have any other plan for material investments or capital assets.

Contractual obligations

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Target Company's capital commitments amounted to approximately HK$143,000, nil, nil and nil, respectively.

Contingent liabilities

The Target Company had no significant contingent liabilities as at 31 December 2017, 2018 and 2019 and 30 June 2020.

VALQUEST ADVISORY
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Ref No：2020082801
8 December 2020

Precious Dragon Technology Holdings Limited
Flat G, 20/F,
Golden Sun Centre,
59-67 Bonham Strand West,
Sheung Wan, Hong Kong

Dear Sirs / Madams,

In accordance with your instructions, as confirmed in our engagement letter dated 28 August 2020, ValQuest Advisory (Hong Kong) Limited ("**ValQuest**" or "**we**") has performed an independent valuation for Precious Dragon Technology Holdings Limited ("**Precious Dragon**", the "**Company**" or "**you**") on the market value of 30% equity interest in 廣州歐亞氣霧劑與日化用品製造有限公司 ("**Guangzhou Euro Asia**" or the "**Target Company**") as of 31 August 2020 (the "**Valuation Date**") for public documentation purposes.

This report has been prepared solely for the purpose stated in section 2 of this report. This report is prepared to our client only and no party is entitled to rely on the report for any other purpose and we accept no responsibility or liability to any party whatsoever in respect of the contents of this report.

This report has been prepared based on the work procedures performed from 28 August 2020 to 8 December 2020. We are not responsible for identifying all relevant changes in market conditions which may impact on the valuations, and no obligation is assumed to update our findings described in this report for any events and circumstances occurring subsequent to the date of this report.

The information in this report may be obtained from various sources. Our value analysis has been performed based on the information (the "**Information**") provided by management of the Company ("**Management**"). We have also made enquiries to Management to obtain an understanding of the basis and assumptions of the Information. However, we may not be able to verify the assumptions adopted in the Information. We may not have performed audit or due diligence procedures or otherwise to verify the truth, accuracy or reliability of the information provided to us during our engagement. We do not assume any responsibility for and make no representations with respect to the accuracy or completeness of any information provided by Management. Accordingly, we accept no responsibility or liability whatsoever for any losses incurred by the Company or any third parties as a result of our reliance on the information made available to us.

Thank you for appointing us in this engagement. If you have any opinions or recommendations on our report, please do not hesitate to contact us.

Respectfully submitted,
For and on behalf of
ValQuest Advisory (Hong Kong) Limited

This valuation report has been prepared and analysed by Mr. Chris Tan.

Mr. Chris Tan is a CFA charterholder and holds a Master's degree in Financial Mathematics. Mr. Tan has over 10 years of experience in the valuation of businesses, intangible assets, financial instruments for various purposes, such as mergers and acquisitions, initial public offering, financing, due diligence, etc.

1. Executive Summary

We have been engaged by the Company to perform an independent valuation of the Target Company as of the Valuation Date.

In accordance with the purpose and scope of our engagement set out in Section 2, and subject to the Principal Assumptions set out in Appendix 1, Limitation of Our Work set out in Appendix 2 and Source of Information set out in Appendix 3, the market value of 30% equity interest in the Target Company as of Valuation Date is summarized in the table below:

Market value of the Target Company

30% equity interest in the Target Company	RMB 133 mil
Exchange rate (HK$/RMB)	1.1317
30% equity interest in the Target Company	**HK$ 151 mil**

This appraisal will be used solely for the Company for the purposes stated in section 2 of this report. It is inappropriate to use this appraisal for purposes other than its intended use by any other party.

This report documents the methodology adopted, key valuation inputs/parameters used and the valuation results for this appraisal.

2. Background and Purposes of our work

We understanding that China Medical Beauty Bio-Technology Company Limited (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, is contemplating to acquire 30% of the issued share capital of the Target Company, from European Asia Industrial Limited (the "**Vendor**"). As of the Valuation Date, the Company indirectly holds 70% equity interest in the Target Company.

The Target Company is principally engaged in the design, development, manufacture and sale of personal care aerosol products (such as hand sanitizer, foaming facial wash, sunscreen, moisturizer, deodorizer and hand wash) and other products including household products (such as paint and floor polish) (the "**Business**").

The Target Company also owns a piece of industrial land situated at No. 628 Jufeng North Road, Aotou Town, Conghua District, Guangzhou City (the "**Land**"). We understand that no business activity is conducted on the Land currently.

In this regard, Management has requested ValQuest to provide valuation services to estimate the market value of the 30% equity interest of the Target Company as of the Valuation Date for public documentation purposes.

Basis of Valuation

The basis of our valuation will be market value, which is defined under International Valuation Standards, as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Valuation Date

The valuation date is 31 August 2020.

Scope of Our Work

Valuation of the Target Company mainly includes the following procedures:

1. Review of the business background information provided by you;

2. Gather the necessary operational and financial information (including financial projections) from you for the valuation, and analyze the fundamentals pertaining to the business;

3. Perform the valuation of the Target Company using appropriate and commonly adopted valuation methodologies;

4. Discuss the valuation results with you; and

5. Prepare the valuation report.

3. Valuation Methodology

To arrive at our opinion of value of the Business, we consider the use of the following valuation approaches:

The **income approach** provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the Business;

The **market approach** provides an indication of value by comparing the Business to similar assets that have been sold in the market, with appropriate adjustments for the differences between the assets; and

The **cost approach** provides an indication of value based on the principle that an informed buyer would pay no more than the cost of producing a substitute asset with equal utility as the Business.

In this valuation exercise, we have selected market approach to estimate the market value of the Business as of the Valuation Date.

The income approach was not adopted because more assumptions would have to be made and the valuation could largely vary by any uncertain assumption. The cost approach was also not adopted because it could not capture the future earning potential of the major operating business of the Target Company and therefore it could not reflect the appropriate market value. We have therefore considered the adoption of the market approach in arriving at the market value of the Business.

We have searched for comparable companies base on the following selection criteria:

1. The companies are listed in and their products are sold in Asia Pacific;

2. The companies are principally engaged in manufacturing aerosols products or hand sanitizers;

3. The companies have sufficient listing (more than 6 months) and operating histories;

4. The companies' market capitalization is under HK$3 billion; and

5. The financial information of the companies is available to the public.

We selected six comparable companies and their description as shown below:

No.	Company Name	Ticker	Company Descriptions
1	China Ludao Technology Co Ltd	2023 HK Equity	China Ludao Technology Co Ltd is a manufacturer of aerosol products in the PRC. The Company is principally engaged in the research and development, manufacture and sale of aerosol and related products. China Ludao's products include, household and auto care products, air fresheners, personal care products, and insecticides.
2	SANVO Fine Chemicals Group Limited	301 HK Equity	SANVO Fine Chemicals Group Limited produces and sells industrial chemical products. The Company manufactures and sells aerosols, organic silicone, adhesives, synthetic adhesives, and other products. SANVO Fine Chemicals Group markets its products throughout China.
3	DPI Holdings Berhad	DPIH MK Equity	DPI Holdings Berhad operates as a holding company. The Company, through its subsidiaries, manufactures decorative and industrial wood coating products, such as aerosol spray paint, thinner, and solvents. DPI Holdings serves customers in Malaysia.

No.	Company Name	Ticker	Company Descriptions
4	Samurai 2K Aerosol Limited	SAMUR SP Equity	Samurai 2K Aerosol Limited provides aerosol coating solutions. The Company offers coating solutions for the automotive refinishing and refurbishing industry. Samurai 2K Aerosol serves customers worldwide.
5	Precious Dragon Technology Holdings Limited	1861 HK Equity	Precious Dragon Technology Holdings Limited operates as an automotive beauty and maintenance aerosol product manufacturer. The Company designs, develops, produces, and sells auto cleaning and maintenance products, paintings and coatings, and air-fresheners. Precious Dragon Technology Holdings also manufactures personal care products and household products.
6	Zoono Group Ltd	ZNO AU Equity	Zoono Group Limited manufactures chemical products. The Company develops antimicrobial solutions for hand sanitizers, deodorants, skin lotions, water treatment chemicals, surface sanitizers, facial wipes, aerosols, and other applications. Zoono Group serves customers worldwide.

Source: Bloomberg

Given that the Target Company utilizes its know-how and facilities to manufacture various types of products, consisting of personal care products including hair set and keep spray, skin care products and hand sanitizer, that shared the aerosol characteristic, we researched comparable companies which are principally engaged in manufacturing of either aerosol products or hand sanitizers as part of our selection criteria. As such, all the identified comparable companies are engaged in manufacturing of aerosol products although not all of them manufacture personal care or sanitizing products. As a cross-check and to supplement our analysis, we additionally look into some other companies which are engaged in the personal care market, which are further discussed in details later in this report.

Precious Dragon is included as one of the comparable companies, because it fits into all the selection criteria. We notice that other than the Target Company, Precious Dragon also owned an automotive beauty and maintenance product business, and other major assets and liabilities such as a yacht and certain bank borrowings. From the valuation methodology standpoint, it is understood that companies can be different in various aspects even among comparable companies, therefore the consideration of a collective group of companies is important in forming the average market value expectation for a valuation exercise.

We made reference to the Price to Earnings ("**P/E**") multiples of the comparable companies. Other valuation multiples are not adopted because, for instance, P/S multiple or EV/EBITDA multiple are based on financial metrics (i.e. revenue and EBITDA, unlike earnings) that have not accounted for costs, expenses, finance costs and taxes etc., while P/B multiple based only on book value, which may not properly reflect the asset values owned by the company, and cannot reflect the economic benefits of the equity holders. While the P/E multiple measures how much investors are willing to pay for a company's net earnings, we consider the valuation using P/E multiple has already incorporated the differences in margins and costs among the companies, by referencing the net earnings which has deducted all costs, expenses and tax etc. In other words, even though companies may have different pricing strategies and returns per unit product, the adoption of the net earnings incorporated these differences and compare with each other on an overall net earning basis. Since earnings (or net profit) is the direct benefit entitled by the equity shareholder, adopting P/E multiple in the valuation could compare the Target Company to comparable companies on the earning line and arrive at the market value on such basis. Based on the market data of the comparable companies as of the Valuation Date and considering marketability associated to the Business, we estimated the market value of the Business on non-marketable basis.

Details of the P/E multiple of each of the comparable companies are as follows:

	Stock Ticker	Manufactured personal care or sanitizing products	P/E
1	2023 HK Equity	Y	14.7x
2	301 HK Equity	N	15.1x
3	DPIH MK Equity	N	14.4x
4	SAMUR SP Equity	N	26.2x*
5	1861 HK Equity	Y	7.4x
6	ZNO AU Equity	Y	22.1x

All comparable companies	
Average	**16.7x**
Average excluding outliers (adopted)	**14.7x**
Median	**14.9x**
Companies manufactured personal care or sanitizing products only	
Average	**14.7x**
Median	**14.7x**

* *Note:* P/E multiple of SAMUR SP Equity is considered as outlier, since its multiple is much higher than the other comparable companies'.

We noted that the adopted comparable companies, excluding outlier, can be different from the Target Company in terms of revenue (around HK$90 million to HK$870 million) and net asset value (around HK$100 million to HK$390 million). However, in general practice, given the limited number of comparable companies available, it is common to consider a comprehensive set of companies that engaged in similar business. Having said that, the comparable company that is the most similar to Target Company in size, DPI Holdings (revenue of around HK$90 million and net asset value of HK$140 million) has a P/E multiple of 14.4x, which is very close to the adopted P/E multiple.

As a comparison, we further looked into companies engaging in the personal care market. Due to the large number of listed companies engaged in this sector, we have specifically selected 9 listed companies, other than the adopted comparable companies, that met the following selection criteria:

1. Since the Target Company manufactured aerosol products that applied to skin or hair, companies that manufactured certain skin or hair care products are chosen;

2. Since the Target Company main geographic segments were Greater China (including Hong Kong) and Japan, companies that shared these segments are chosen; and

3. Companies with market capitalization under HK$15 billion (whereby selected companies had a market capitalization between roughly HK$200 million and 14 billion) as of the Valuation Date.

We noted that the adopted 14.7x P/E is lower than these companies' P/E multiples. The reason for us to adopt a criterion of selecting companies with under HK$ 15 billion market capitalization is because there were only 5 companies (with only 3 had a positive P/E multiple) that had a market capitalization of under HK$ 3 billion (being the criterion we used for selected the adopted comparable companies). Their P/E multiples were all above 25.0x (25.0x, 43.6x and 724.2x). When we expand to companies that had a market capitalization of under HK$ 15 billion, there were 9 companies and with 7 of them had a positive P/E multiple, from which we can draw a more conclusive view, with average and median P/E multiple of around 30.2x (excluding the highest data point) and 28.2x respectively. For the full list of these 9 companies, please refer to Table 1 at the end of this report.

We adopted the following parameters in the valuation:

Parameters	**Values**
Last Twelve Months normalized net profit of the Target Company	RMB 32,594,226
Average of P/E multiple of comparable companies	14.7x
Discount of lack of marketability	15.8%

The Target Company is principally engaged in the design, development, manufacture and sale of aerosol products used in personal care products and other products including household products. After the outbreak of COVID-19, the Target Company expanded into the manufacturing and selling of sanitizing aerosol products. We consider that the last 12-month net profit of the Target Company should better reflect the financial performance under the current situation and target market of the Target Company.

The average P/E multiple adopted was applied to the last 12-month net profit of the Target Company for the period from 1 September 2019 to 31 August 2020, which was RMB 32,594,226 based on the management accounts of the Target Company prepared by the Management, to arrive at the market value of the Business.

The market value of the Land was based on the property valuation report dated 8 December 2020 prepared by ValQuest. According to the valuation report, market value of the Land was RMB 40,146,000 as of the Valuation Date.

4. Valuation of the Target Company

Since the Target Company ran the Business and separately owned the Land as of Valuation Date, the market value of the Target company shall equivalent to the aggregate market value of the Business and the Land.

Detailed calculation regarding the market value of 30% equity interest in the Target Company is summarized below:

	Note(s):		
Last Twelve Months Normalized Net Profit of the Business as of Valuation Date (in RMB'000)	1	a	32,594
Adopted average P/E multiple of comparable listed companies		b	14.7x
Market value of the Business (in RMB'000) (on marketable basis)		c = a x b	480,439
Minus: Discount of Lack of Marketability	2		15.80%
		d	(75,909)
Market value of the Business (in RMB'000) (on non-marketable basis)		**e = c + d**	**404,530**
Market Value of the Land (in RMB'000)	3	f	40,146
30% market value of the Target Company (in RMB'000) (on non-marketable basis)		**g = 30% x (e + f)**	**133,403**
Exchange rate (HK$/RMB)	4		1.1317
30% market value of the Target Company (in HK$'000) (on non-marketable basis)			**150,972**

Note(s):

(1) Based on management accounts provided by Management as of 31 August 2019, and 31 August 2020, and accounting report as of 31 December 2019.

(2) Based on Companion Guide of Stout Restricted Stock Study (2020 Edition)

(3) Based on the property valuation report dated 8 December 2020 prepared by ValQuest.

(4) Sourced from Bloomberg

5. Conclusion of Values

In accordance with the purpose and scope of our engagement set out in Section 2, and subject to the Principal Assumptions set out in Appendix 1, Limitation of Our Work set out in Appendix 2 and Source of Information set out in Appendix 3, the market value of the 30% equity interest in the Target Company as of Valuation Date is summarized in the table below:

Market value of the Target Company

30% equity interest in the Target Company	RMB 133 mil
Exchange rate (HK$/RMB)	1.1317
30% equity interest in the Target Company	**HK$ 151 mil**

This conclusion of values was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. We have no obligation to update this report or our conclusion of values for information that comes to our attention after the date of this report.

We hereby certify that we have neither present nor prospective interests in the Company or the values reported.

This report is solely for the purpose stated herein and may not be used for other purpose, in whole or in part, without our prior written consent.

Appendix 1: Principal Assumptions

Before arriving at our opinion of values, we have considered the following principal factors:

- The financial and operating results of the Target Company;
- The nature and prospects of the industry of the Target Company is operating;
- The stage of development and the business risks of the Target Company; and
- The financial positions and credit risks of the Target Company.

Due to the changing environment in which the Target Company is operating, a number of assumptions have to be established in order to sufficiently support our concluded valuation results. The major principal assumptions adopted in this appraisal are:

- The Information provided and the estimations/representations made by Management with regard to our valuations are complete, accurate and reliable;
- The public and statistical information we have been obtained from sources are deemed to be reputable, accurate and reliable;

- There will be no major changes in the existing political, legal, fiscal and economic conditions in the countries that the Target Company is operating;

- There will be no substantial fluctuation in the economic outlook and specific industry outlook affecting the continuity of the businesses of the Target Company and the market values of the underlying shares;

- There are no material changes, after the date of this report, in the relevant corporate tax rate, interest rate, long-term borrowing rate, and exchange rate from that currently prevailing in the countries that the Target Company is operating which may significantly impact its businesses;

- The Target Company will retain and have competent management, key personnel, and technical staff to support their ongoing operation and will continue to operate as a going concern and have sufficient liquidity and capability to achieve the financial forecasts; and

- There will be no material changes as to the management and business strategies and operational structure, which will continue to be operated under the current existing and expected business model.

Appendix 2: Limitation of our work

This report was prepared based on the following limitations:

The conclusion of values arrived at herein is based on the prevailing or then prevailing economic environment, market conditions, and purchasing power of the currency stated in the report as of the Valuation Date, which is valid only for the stated purpose as of the Valuation Date.

This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore, the report and conclusion of values are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of values represents the considered opinion of ValQuest based on information furnished to them by the Company and other sources.

Neither all nor any part of the contents of this report (especially the conclusion of values, the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without the prior written consent and approval of ValQuest.

Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of ValQuest unless previous arrangements have been made in writing.

No change of any item in this appraisal report shall be made by anyone other than ValQuest and we shall have no responsibility for any such unauthorized change.

Our valuation may involve the use of prospective or estimated information provided by Management. We have made enquiries to Management to obtain an understanding of the basis and rationale of their assumptions or assertions. However, we may have not attempted to verify the assumptions or assertions. It should be noted that actual results are likely to be different from those prospective or estimated information based on Management's representation because events and circumstances frequently do not occur as expected, and the differences may be material.

Moreover, our valuation has also relied upon other information obtained from public sources which we believe to be reliable. We accept no responsibility for accuracy and reliability of any information obtained from public sources.

Our valuation results presented in this report are provided to Management as public documentation reference. Our role is advisory only and we do not act or appear to act in a capacity equivalent to a member of your management.

We are not responsible for identifying all relevant changes in market conditions which may impact on the business, and our work scope should not include to update our findings described in this report for any events and circumstances occurring subsequent to the date of this report.

By its very nature, valuation work cannot be regarded as an exact science and the conclusion arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment.

Appendix 3: Source of Information

The key information we have made reference to and used in our valuations includes but not limited to the following:

- Management account of Guangzhou Euro Asia as of 31 August 2019 and 31 August 2020;
- Property valuation report dated 8 December 2020 prepared by ValQuest;
- Accounting report as of 31 December 2019;
- Discussion with Management; and
- Publicly available information sources (e.g. Bloomberg).

Table 1 — Skin/Hair Care Products Companies (in ascending market capitalization order)

Company Name	Company Description	P/E
IVY COSMETICS	IVY COSMETICS CORPORATION manufactures and sells a variety of cosmetic products. The Company sells skin care, makeup, hair care, and hair dye products primarily through door-to-door sales.	724.2x
C'BON COSMETICS	C'BON COSMETICS Co., Ltd. manufactures a wide range of skin care products. The company's products include facial cleansing and massage creams.	N/A
ADJUVANT COSME J	ADJUVANT COSME JAPAN Co Ltd develops, manufactures, and sells cosmetics items including skin care products, hair care products, and other related products to beauty salons and hair salons.	N/A
NATURAL BEAUTY	Natural Beauty Bio-Technology Limited researches and develops, manufactures and sells aroma therapeutic, beauty and skin care products, marketed and distributes through a sales network in China. The Company also provides skin treatments and SPA services through its beauty centers offering tailor-made equipment by the professional beauticians.	43.6x
COTA CO LTD	COTA CO., LTD. manufactures and sells hair care products. The Company offers an extensive line of perm, coloring, styling, and treatment products.	25.0x
CHLITINA HOLDING	Chlitina Holding Limited manufactures, markets, and distributes beauty and skin care products. The company promotes its business through franchise chain stores.	15.6x
MANDOM CORP	MANDOM CORPORATION manufactures and markets a variety of cosmetic products for men and women. The Company's products include hair care and skin care cosmetics.	21.0x

Company Name	Company Description	P/E
NOEVIR HOLDING C	Noevir Holdings Co., Ltd. manufactures and sells a variety of cosmetic products. The Company's products include skin care and make-up. Noevir also manufactures and sells medicines, nutritional supplements and apparel.	28.2x
MILBON CO LTD	Milbon Co., Ltd. manufactures hair care products for beauty salons. The Company produces chemicals for permanents, hair coloring, shampoos, rinses, and hair growth stimulant products.	48.0x

Source: Bloomberg

The following is the full text of the letter, summary of value and valuation report, prepared for the purpose of incorporation in this circular received from ValQuest Advisory (Hong Kong) Limited, an independent valuer, in connection with the valuation of the property interest held by the Target Company as of 30 September 2020.

VALQUEST ADVISORY
中誠達行(香港)

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8 December 2020

Precious Dragon Technology Holdings Limited
Flat G, 20/F,
Golden Sun Centre,
59-67 Bonham Strand West,
Sheung Wan, Hong Kong

Dear Sirs / Madams,

Re: Valuation of a parcel of land located at No. 628 Jufeng North Road, Aotou Town, Conghua District, Guangzhou City, Guangdong Province, the People's Republic of China (the "Property")

Instruction, purpose and valuation date

We refer to the instruction from Precious Dragon Technology Holdings Limited (the "**Company**") to value the Property held by the Target Company located in the People's Republic of China (the "**PRC**") (as more particularly described in the attached valuation report), we confirm that we have carried out physical site inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as of 30 September 2020 (the "**Valuation Date**").

Basis of value

The Property was valued on the basis of "market value" which is defined under The HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors (HKIS) as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction), and without offset for any associated taxes or potential taxes.

Market value is also the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

We confirm that the valuation and report were undertaken in accordance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; The HKIS Valuation Standards 2017 (effective from 30 December 2017) published by HKIS; and The RICS Valuation - Global Standards incorporating the IVSC International Valuation Standards (effective from 31 January 2020) published by the Royal Institution of Chartered Surveyors.

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020 has affected global financial markets. Our valuation is reported on the basis of 'material valuation uncertainty' as per "VPS3 Valuation Reports" and "VPGA10 Matters that may give Rise to Material Valuation Uncertainty" of the RICS Valuation — Global Standards. Consequently, less certainty — and a higher degree of caution — should be attached to our valuations than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate markets, we recommend the instructing party keep the valuation of the Property under frequent review.

General valuation assumptions

In the course of our valuation, we have assumed that transferrable land use rights or land title have been granted to the Property with nominal annual land use fees or ground rents, and that all requisite land premium has been fully settled. The owner of the Property possesses legal and enforceable title to the Property, and has free and uninterrupted rights to use, occupy or assign the Property for the whole of the unexpired land use rights term.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property or any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

Valuation methodology

We have valued the Property using the direct comparison method by making reference to comparable sales evidences available in the local market, and with adjustments to reflect the differences between the Property and the comparables in terms of various factors such as transaction timing, location and remaining land use rights term etc.

Source of information We have relied to a considerable extent on the information provided by the Company in respect of the Property, and have accepted advice on such matters as identification of the Property, land use rights and land tenure, site area, occupancy status, planning approvals, statutory notices, easements and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information furnished to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Title investigation We have been provided by the Company with extracts of title documents relating to the Property located in the PRC. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us by the Company. In the course of our valuation, we have relied on the information given by the Company and its PRC legal adviser — China Commercial Law Firm concerning the title and other legal matters relating to the Property.

Site inspection We have inspected the exterior and, where possible, the interior of the Property. During the course of our inspection, we noted that the Property appeared to be in a generally reasonable state of repair. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are, however, unable to report whether the Property is free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out detailed on-site measurement to verify the correctness of the site area in respect of the Property but have assumed that the site areas shown on the documents and/or official plans handed to us by the Company are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

Currency Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Confirmation of independence We hereby confirm that ValQuest Advisory (Hong Kong) Limited and the undersigned have no pecuniary or other interests that would conflict with the proper valuation of the Property or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. We confirm that we are an independent qualified valuer as referred to Rule 5.08 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Our valuation is summarised below and the valuation report is attached.

Yours faithfully,
for and on behalf of
ValQuest Advisory (Hong Kong) Limited
Norris Z. Y. Nie
MCIREA MRICS MHKIS
Managing Director

Note: Mr. Norris Nie is a member of the China Institute of Real Estate Appraiser, a member of The Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. He has over 22 years of experience in the professional property valuation and advisory services in the Mainland China, Hong Kong and other overseas countries.

SUMMARY OF VALUE

Property interest held by the Target Company in the PRC

Address	Market value in existing state as of 30 September 2020 *RMB*	Interest attributable to the Target Company	Market value in existing state as of 30 September 2020 attributable to the Target Company *RMB*
A parcel of land located at No. 628 Jufeng North Road Aotou Town Conghua District Guangzhou City Guangdong Province The PRC	40,146,000	100%	40,146,000
Total:	**40,146,000**		**40,146,000**

VALUATION REPORT

Property interest held by the Target Company in the PRC

Property	**Description and tenure**	**Particulars of occupancy**	**Market value in existing state as of 30 September 2020** *RMB*
A parcel of land located at No. 628 Jufeng North Road Aotou Town Conghua District Guangzhou City Guangdong Province The PRC	The Property comprises a parcel of industrial land with a site area of approximately 63,623 square metres. The land use rights of the Property were granted for a term expiring on 14 April 2060 for industrial use.	The Property is currently vacant.	40,146,000 *(100% interest attributable to the Target Company: RMB40,146,000)*

Notes:-

(1) Pursuant to a Real Estate Title Certificate — Yue (2020) Guang Zhou Shi Bu Dong Chan Quan Di No. 208331, the land use rights of the Property with a site area of 63,623 square metres were granted to the Target Company for a term expiring on 14 April 2060 for industrial use.

(2) The property was inspected by Wang Ya-jun, a valuer with 4 years' of real estate valuation experience on 25 August 2020.

(3) We have been provided with a legal opinion on the property prepared by the Company's PRC legal advisor — China Commercial Law Firm, which contains, *inter alia*, the following:

a. The Target Company possesses the legal title of the Property, and all relevant land premium has been fully settled;

b. The Property is subject to a mortgage in favour of Bank of China Limited, Guangzhou Baiyun Branch for a term of 8 years commencing on 1 January 2020 and expiring on 31 December 2028, with a loan amount of RMB 36,265,100; and

c. Other than the aforesaid mortgage, the Property is not subject to any other encumbrances such as pledge, mortgage or foreclosure.

(4) For reference purpose, the reconciliation of the valuation result of the property as of 30 September 2020 and the corresponding net book value as of 30 June 2020 is shown below:

Items	**Amount (on a 100% basis)** *(RMB)*
Valuation result as of 30 September 2020	40,146,000
Net book value as of 30 June 2020	7,650,384

(5) The subject land is currently vacant. As advised by the Company, it intended to build a production complex on the subject land, which consists of warehouses and production facilities for manufacturing of cosmetic products. However, the Company has no definitive plan as to the timetable for such construction as of the Valuation Date. Nevertheless, the lack of development plan will not affect the valuation result as the value of the land is derived by making reference to comparable land sale transactions which are of similar state as the subject land as of the valuation date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material aspects and not misleading or deceptive, and there is no other matter the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and Chief executive of the Company

As at the Latest Practicable Date, interests or short positions in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules are as follows:

Long positions in the Shares and underlying Shares of the share options granted under the pre-IPO share option scheme of the Company adopted on 12 April 2019

	Number of ordinary Shares			Interests in underlying Shares		
Name of Directors	**Beneficial owner**	**Interest of family**	**Interests in a controlled corporation**	**Share options** *(Note 1)*	**Total**	**Approximate percentage of the issued Shares** *(Note 2)*
Ms. Ko Sau Mee ("**Mrs. Lin**")	—	107,788,500 *(Note 3)*	67,000,000 *(Note 4)*	500,000	175,288,500	75.06%
Ms. Lin Hing Lei	—	—	—	500,000	500,000	0.21%
Mr. Lin Hing Lung	—	—	—	500,000	500,000	0.21%
Mr. Yang Xiaoye	—	—	—	300,000	300,000	0.13%
Mr. Poon Tak Ching	368,000	—	—	—	368,000	0.16%

Notes:

(1) These share options represent the awarded underlying Shares granted to the Directors under a pre-IPO share option scheme of the Company which was adopted on 12 April 2019.

(2) These percentages have been compiled based on the total number of issued Shares as at the Latest Practicable Date (i.e. 233,544,750 Shares).

(3) These Shares are held by Mr. Lin Wan Tsang, as Mrs. Lin is the spouse of Mr. Lin Wan Tsang, Mrs. Lin is deemed to be interested in all the Shares held by Mr. Lin Wan Tsang by virtue of the SFO.

(4) These Shares are held by Wellmass International Limited ("**Wellmass**"), which is wholly and beneficially owned by Mr. Lin Wan Tsang. As Mrs. Lin is the spouse of Mr. Lin Wan Tsang, Mrs. Lin is deemed to be interested in all the Shares held by Mr. Lin Wan Tsang (through Wellmass) by virtue of the SFO.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective close associates had registered any interests or short positions in any Shares, underlying Shares in, and debentures of, the Company or any associated corporations as at the Latest Practicable Date, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

(b) Interests of substantial Shareholders

As at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the Shares

Name of shareholder	Capacity/Nature of interests	Number of Shares held	Approximate percentage of issued Shares *(Note 1)*
Mr. Lin Wan Tsang	Beneficial Owner	107,788,500	46.15%
	Interest of spouse	500,000 *(Note 2)*	0.21%
	Interests in a controlled corporation	67,000,000 *(Note 3)*	28.69%
Wellmass	Beneficial Owner	67,000,000 *(Note 3)*	28.69%

Notes:

(1) These percentages have been compiled based on the total number of issued Shares as at the Latest Practicable Date (i.e. 233,544,750 Shares).

(2) These underlying Shares are held by Mrs. Lin, as Mr. Lin Wan Tsang is the spouse of Mrs. Lin, Mr. Lin Wan Tsang is deemed to be interested in all the Shares held by Mrs. Lin by virtue of the SFO.

(3) These Shares are held by Wellmass, a company incorporated in the British Virgin Islands, and is solely and beneficially owned by Mr. Lin Wan Tsang.

Save as disclosed above, as at the Latest Practicable Date, no person, other than the Directors or chief executive of the Company, had registered an interest or short position in the Shares or underlying Shares that was required to be recorded pursuant to Section 336 of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, all Directors have entered service contracts with the Company. None of the Directors had entered, or proposed to enter into a service contract with any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective close associates had any direct or indirect interest in a business which competes or may compete with the business of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up.

6. MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors (i) had any direct or indirect interest in any assets which had been, since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) was materially interested in any transaction, contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within two years immediately preceding the Latest Practicable Date and are or may be material:

(a) the sale and purchase agreement relating to the sale and purchase of one share of the Company dated 30 April 2019 entered into between Euro Asia Investments Global Limited (as vendor) and China Aluminum Cans (as purchaser), pursuant to which Euro Asia Investments Global Limited agreed to transfer one share of the Company to China Aluminum Cans at the consideration of HK$0.01;

(b) the subscription agreement dated 30 April 2019 entered into between Topspan Holdings Limited (as issuer) and the Company (as subscriber), pursuant to which the Company agreed to subscribe for and Topspan Holdings Limited agreed to allot and issue to the Company 9,998 new shares of Topspan Holdings Limited for the aggregate sum of US$9,998;

(c) the sale and purchase agreement relating to the sale and purchase of two shares of Topspan Holdings Limited dated 15 May 2019 entered into between the Company (as purchaser) and Euro Asia Investments Global Limited (as vendor), pursuant to which Euro Asia Investments Global Limited agreed to transfer two shares of Topspan Holdings Limited to the Company in consideration of the Company allotting and issuing one Share, all credited as fully paid up in the capital of the Company, to Euro Asia Investments Global Limited;

(d) the deed of non-competition dated 27 May 2019 and executed by the controlling Shareholders in favour of the Company (for itself and as trustee for each of its subsidiaries), pursuant to which each of the controlling Shareholders confirmed that he/it and his/its close associates shall not engage in any business which is or may be in competition with the business of the Group from time to time so long as it remains as a controlling Shareholder;

(e) the deed of indemnity dated 27 May 2019 and executed by the controlling Shareholders in favour of the Company (for itself and as trustee for each of its subsidiaries), pursuant to which the controlling Shareholders have agreed to jointly and severally indemnify each of the members of the Group against, among other things, any tax, duty or levy which may fall on any of the members of the Group in connection with any revenue or profit generated on or before listing, or any actions, claims, losses, payments, costs, penalties, damages or expenses which any of the members of the Group may incur or suffer as a result of any non-compliance on or before listing;

(f) the sale and purchase agreement dated 23 December 2019 entered into between Botny Corporation Limited (as the buyer) and Sunseeker International Limited (as the vendor) in relation to the purchase of a yacht for a total consideration of £3,650,000 (equivalent to approximately HK$38,000,000);

(g) the sale and purchase agreement dated 10 June 2020 entered into between Precious Dragon Technology Thai Limited (as the buyer) and Pinthong Industrial Park Public Company Limited (as the vendor) in relation to the acquisition of a land situated in Thailand for a consideration of Baht 100,548,075.00 (equivalent to approximately HK$24,800,000), subject to adjustment;

(h) the Sale and Purchase Agreement; and

(i) the letters of intent dated 11 November 2020 entered into between Precious Dragon Technology Thai Limited and each of S.P. 64 KARNCHANG Co., Ltd. and State Construction Co., Ltd. in relation to the construction of a new production plant in Thailand for a total contract value (including value-added tax) of Baht 215,890,856 (equivalent to approximately HK$55,181,703).

9. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given their opinion or advice which are contained in this circular:

Name	Qualifications
Ernst & Young	Certified Public Accountants
Opus Capital	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the Independent Financial Adviser
Valquest Advisory (Hong Kong) Limited	Independent Qualified Valuer

As at the Latest Practicable Date, each of the experts named above (i) had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) had no direct or indirect interest in any assets which had been, since 31 December 2019 (the date to which the latest published audited accounts of the Company were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

Each of the experts named above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and the reference to its name included herein in the form and context in which it appears.

10. MISCELLANEOUS

a) The company secretary of the Company is Mr. Lee Kam Fai;

b) The registered office of the Company is at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands;

c) The head office and principal place of business in Hong Kong is at Unit G, 20/F., Golden Sun Centre, Nos. 59/67 Bonham Strand West, Sheung Wan, Hong Kong;

d) The principal registrar and transfer office of the Company in the Cayman Islands is Ocorian Trust (Cayman) Limited (formerly known as Estera Trust (Cayman) Limited) at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands;

e) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong; and

f) The English text of this circular shall prevail over the Chinese text in case of inconsistencies.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Unit G, 20/F., Golden Sun Centre, Nos. 59/67 Bonham Strand West, Sheung Wan, Hong Kong, during normal business hours from 9:30 a.m. to 5:00 p.m. on any weekday, except public holdings from the date of this circular up to and including the date of the EGM (being not less than 14 days):

(a) the Sale and Purchase Agreement;

(b) the articles of association of the Company;

(c) the annual reports of the Company for each of the three years ended 31 December 2017, 2018 and 2019;

(d) the interim report of the Company for the six months ended 30 June 2020;

(e) the service contracts entered into between the Company and the Directors;

(f) the letter from the Board to the Shareholders, the text of which is set out in the section headed "Letter from the Board" of this circular;

(g) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;

(h) the letter from the Independent Financial Adviser, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;

(i) the accountants' report on the financial information of the Target Company for each of the three years ended 31 December 2019 and the six months ended 30 June 2020, the text of which is set out in Appendix II to this circular;

(j) the report from Ernst & Young on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(k) the valuation report on the Target Company issued by Valquest Advisory (Hong Kong) Limited as set out in Appendix V to this circular;

(l) the letters of consent from the experts referred to under the section headed "Qualifications and consents of experts" in this appendix;

(m) the material contracts referred to under the section headed "Material contracts" in this appendix; and

(n) this circular.