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PRECIOUS DRAGON TECHNOLOGY HOLDINGS LIMITED

保寶龍科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1861)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

ANNUAL RESULTS

The board (the “Board”) of directors (the “Directors”) of Precious Dragon Technology Holdings Limited (the “Company”) is pleased to announce the consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2020 (the “Reporting Period”), together with the comparative figures for the year ended 31 December 2019. These results have been reviewed by Ernst & Young, the external auditor of the Group, and the audit committee of the Company (the “Audit Committee”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
REVENUE	5	665,651	561,535
Cost of sales		<u>(442,135)</u>	<u>(397,362)</u>
Gross profit		<u>223,516</u>	<u>164,173</u>
Other income and gains	5	14,827	12,725
Selling and distribution expenses		(49,938)	(54,628)
Administrative expenses		(56,074)	(45,559)
Research and development expenses	6	(21,371)	(20,169)
Impairment losses on financial assets	6	(4,110)	(803)
Other expenses		(12,191)	(2,678)
Finance costs	7	<u>(1,406)</u>	<u>(2,327)</u>
PROFIT BEFORE TAX	6	93,253	50,734
Income tax expenses	8	<u>(29,617)</u>	<u>(12,620)</u>
PROFIT FOR THE YEAR		<u>63,636</u>	<u>38,114</u>
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>12,882</u>	<u>(3,583)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>76,518</u>	<u>34,531</u>
Profit attributable to:			
Owners of the parent		53,161	37,412
Non-controlling interests		<u>10,475</u>	<u>702</u>
		<u>63,636</u>	<u>38,114</u>
Total comprehensive income attributable to:			
Owners of the parent		64,940	34,000
Non-controlling interests		<u>11,578</u>	<u>531</u>
		<u>76,518</u>	<u>34,531</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	10	<u>HK22.8 cents</u>	<u>HK16.0 cents</u>
Diluted		<u>HK22.8 cents</u>	<u>HK16.0 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		31 December	31 December
		2020	2019
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	163,680	96,199
Right-of-use assets		58,396	55,942
Deferred tax assets		3,790	2,160
Non-current prepayments		19,245	44,010
		<hr/>	<hr/>
Total non-current assets		245,111	198,311
CURRENT ASSETS			
Inventories	11	56,374	49,157
Trade and bills receivables	12	40,482	30,294
Prepayments, deposits and other receivables		13,367	5,936
Pledged bank deposits		4,319	3,424
Cash and cash equivalents		161,622	134,953
		<hr/>	<hr/>
Total current assets		276,164	223,764
CURRENT LIABILITIES			
Trade and bills payables	13	53,273	42,329
Other payables and accruals		105,521	55,360
Interest-bearing bank and other borrowings	15	68,605	15,152
Tax payable		3,432	2,722
Deferred income		238	224
		<hr/>	<hr/>
Total current liabilities		231,069	115,787
NET CURRENT ASSETS		45,095	107,977
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		290,206	306,288
NON-CURRENT LIABILITIES			
Due to a related party		60,000	—
Interest-bearing bank and other borrowings	15	178	25,082
Deferred tax liabilities		2,641	1,769
Deferred income		1,663	1,790
		<hr/>	<hr/>
Total non-current liabilities		64,482	28,641
Net assets		225,724	277,647
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2020

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
EQUITY		
Equity attributable to owners of the parent		
Share capital	2,335	2,335
Other reserves	223,485	273,139
	225,820	275,474
Non-controlling interests	(96)	2,173
Total equity	<u>225,724</u>	<u>277,647</u>

NOTES:

1. CORPORATE AND GROUP INFORMATION

Precious Dragon Technology Holdings Limited (the “Company”) was incorporated on 5 May 2018 in the Cayman Islands (“Cayman”) as a limited liability. The registered office of the Company is located at Ocorian Trust (Cayman) Limited, Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

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

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

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

In the opinion of the directors (the “Directors”), as at 31 December 2020, the immediate holding company and ultimate holding company of the Company is Wellmass International Limited (“Wellmass”), a company incorporated in the British Virgin Islands (the “BVI”).

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

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

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Company Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Botny Hongkong Co., Limited	Hong Kong	US\$100,000	—	100	Trading of aerosol and non-aerosol products
Guangzhou Shentian Woye Trading Co., Ltd. ("Guangzhou Shentian") (廣州深田沃業貿易 有限公司)*	PRC	RMB10,000,000	—	100	Investment holding
Euro Asia Japan Co., Ltd. (株式会社ユーロア ジア・ジヤパン)	Japan	JPY9,000,000	—	100	Trading of aerosol and non-aerosol products
China Medical Beauty Bio-Technology Company Limited ("China Medical Beauty")	Hong Kong	HK\$10,000	—	100	Trading of aerosol and non-aerosol products
Precious Dragon Group Limited	Hong Kong	HK\$1,000	—	100	Investment holding and trading
Botny Marine Limited	Hong Kong	HK\$10,000	—	100	Investment holding
Precious Dragon Technology Thai Limited	Thailand	THB5,000,000	—	100	Content filling of aerosol cans, and production and sales of aerosol and non aerosol products
Botny India Chemical Private Limited	India	INR500,000	—	70	Trading of aerosol and non-aerosol products

* Botny Chemical, Euro Asia Aerosol and Guangzhou Shentian are registered as wholly-foreign-owned enterprises under PRC law.

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

4. OPERATING SEGMENT INFORMATION (continued)

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

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

Year ended 31 December 2020	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Segment revenue:			
Sales to customers	473,869	191,782	665,651
Intersegment sales	549	—	549
	<hr/>	<hr/>	<hr/>
Total	474,418	191,782	666,200
	<hr/>	<hr/>	<hr/>
<i>Reconciliation:</i>			
Elimination of intersegment sales			(549)
			<hr/>
Revenue			<u>665,651</u>
Segment results	60,071	47,167	107,238
<i>Reconciliation:</i>			
Interest income			666
Corporate and other unallocated expenses			(13,245)
Finance costs			(1,406)
			<hr/>
Profit before tax			<u>93,253</u>

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2020	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Segment assets	330,382	115,165	445,547
<u>Reconciliation:</u>			
Elimination of intersegment receivables			(1,087)
Corporate and other unallocated assets			76,815
Total assets			<u>521,275</u>
Segment liabilities	196,346	93,912	290,258
<u>Reconciliation:</u>			
Elimination of intersegment payables			(1,087)
Corporate and other unallocated liabilities			6,380
Total liabilities			<u>295,551</u>
Other segment information:			
Depreciation and amortisation	21,733	967	22,700
Capital expenditure*	80,270	1,005	81,275
Impairment losses/(reversals) on financial assets recognised in the consolidated statement of profit or loss and other comprehensive income	(1,111)	5,221	4,110
Write-down of inventories to net realisable value recognised in the consolidated statement of profit or loss and other comprehensive income	721	979	1,700

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

4. OPERATING SEGMENT INFORMATION (continued)

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

4. OPERATING SEGMENT INFORMATION (continued)

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2020 HK\$'000	2019 HK\$'000
Mainland China	424,185	441,528
Japan	110,207	87,137
Asia	76,061	11,300
Middle East	7,312	6,838
America	43,574	11,133
Others	4,312	3,599
	<u>665,651</u>	<u>561,535</u>

The revenue information above is based on the shipment destinations.

(b) Non-current assets

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of revenue is as follows:

	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers	<u>665,651</u>	<u>561,535</u>

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue (continued)

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2020

Segments	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Type of goods			
Sale of industrial products	<u>473,869</u>	<u>191,782</u>	<u>665,651</u>
Geographical markets			
Mainland China	336,319	87,866	424,185
Japan	108,521	1,686	110,207
Asia	8,692	67,369	76,061
Middle East	7,312	—	7,312
America	9,328	34,246	43,574
Others	<u>3,697</u>	<u>615</u>	<u>4,312</u>
Total revenue from contracts with customers	<u>473,869</u>	<u>191,782</u>	<u>665,651</u>
Timing of revenue recognition			
Goods transferred at a point in time	<u>473,869</u>	<u>191,782</u>	<u>665,651</u>

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

For the year ended 31 December 2019

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

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

For the year ended 31 December 2020

Segments	Automotive beauty and maintenance products HK\$'000	Personal care products HK\$'000	Total HK\$'000
Revenue from contracts with customers			
External customers	473,869	191,782	665,651
Intersegment sales	549	—	549
	<u>(549)</u>	<u>—</u>	<u>(549)</u>
Intersegment adjustments and eliminations			
	<u>(549)</u>	<u>—</u>	<u>(549)</u>
Total revenue from contracts with customers	<u><u>473,869</u></u>	<u><u>191,782</u></u>	<u><u>665,651</u></u>

For the year ended 31 December 2019

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

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

	2020	2019
	HK\$'000	HK\$'000
Revenue recognised that was included in the contract liabilities at the beginning of the reporting period:		
Sale of industrial products	<u>9,339</u>	<u>11,717</u>

(b) Performance obligations

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

Sale of industrial products

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

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

	2020	2019
	HK\$'000	HK\$'000
Amounts expected to be recognised as revenue:		
Within one year	<u>6,724</u>	<u>9,339</u>

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Other income and gains

	2020 HK\$'000	2019 HK\$'000
Sale of scrap materials	1,541	460
Bank interest income	666	679
Government grants:		
– Related to assets*	225	227
– Related to income**	4,780	2,766
Service income	2,120	1,269
Income from research and development design	5,217	6,758
Gain on disposal of property, plant and equipment	—	60
Others	278	506
	<u>14,827</u>	<u>12,725</u>

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

** Various government grants of HK\$4,780,000 (2019: HK\$2,766,000) represent cash receipts from and subsidies provided by the local government authorities to the Group as an encouragement for its technological innovation and overseas sales. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2020 HK\$'000	2019 HK\$'000
Cost of inventories sold		442,135	397,362
Depreciation of property, plant and equipment	14	18,445	16,933
Depreciation of right-of-use assets		4,255	1,570
Auditor's remuneration		2,169	2,779
Research and development costs		21,371	20,169
Lease payments not included in the measurement of lease liabilities		487	477
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries		45,908	39,007
Equity-settled share option expense		2,816	2,306
Pension scheme contributions		4,914	4,910
		<u>53,638</u>	<u>46,223</u>
Exchange losses, net*		6,204	86
Loss on disposal of items of property, plant and equipment, net*		743	168
Impairment losses on financial assets	12	4,110	803
Write-down of inventories to net realisable value*		1,700	1,544

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

7. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on bank loans wholly repayable within five years	1,331	2,322
Interest on lease liabilities	75	5
	<u>1,406</u>	<u>2,327</u>

8. INCOME TAX EXPENSES

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

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

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

Pursuant to the PRC Income Tax Law and the respective regulations, subsidiaries of the Group operating in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group's operating subsidiary, Botny Chemical, since it was recognised as a high technology enterprises and was entitled to a preferential tax rate of 15% for the years of 2020 and 2019.

	2020 HK\$'000	2019 HK\$'000
Current – Mainland China	21,898	9,770
Current – Hong Kong	8,267	3,500
Deferred	(548)	(650)
	<u>29,617</u>	<u>12,620</u>

8. INCOME TAX EXPENSES (continued)

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

	2020		2019	
	HK\$'000	%	HK\$'000	%
Profit before tax	<u>93,253</u>		<u>50,734</u>	
Tax at the statutory tax rate	23,313	25.0	12,684	25.0
Entities subject to lower statutory income tax rates	(5,493)	(5.9)	(5,279)	(10.4)
Effect of withholding tax on distributable profits of the PRC subsidiary	872	0.9	(175)	(0.3)
Expenses not deductible for tax	426	0.5	299	0.6
Withholding income tax expense	7,974	8.6	3,495	6.9
Adjustment in respect of current tax of previous periods	(1,783)	(1.9)	(1,866)	(3.7)
Tax losses not recognised	<u>4,308</u>	<u>4.6</u>	<u>3,462</u>	<u>6.8</u>
Tax charge at the Group's effective tax rate	<u>29,617</u>	<u>31.8</u>	<u>12,620</u>	<u>24.9</u>

9. DIVIDENDS

	2020	2019
	HK\$'000	HK\$'000
Interim – HK2.00 cents (2019: HK1.4 cents) per ordinary share	4,671	3,284
Proposed final – HK2.45 cents (2019: HK2.45 cents) per ordinary share	<u>5,722</u>	<u>5,722</u>
	<u>10,393</u>	<u>9,006</u>

The proposed dividend on ordinary shares is subject to approval at the annual general meeting and is not recognised as a liability as at 31 December 2020.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 233,544,750 (2019: 234,079,051) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

	2020 HK\$'000	2019 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>53,161</u>	<u>37,412</u>
Number of shares		
Shares		
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<u>233,544,750</u>	<u>234,079,051</u>

11. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	18,688	16,207
Work in progress	2,124	1,888
Finished goods	<u>35,562</u>	<u>31,062</u>
	<u>56,374</u>	<u>49,157</u>

At 31 December 2020, the inventories are net of a write-down of approximately HK\$4,629,000 (2019: HK\$2,666,000).

12. TRADE AND BILLS RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	50,116	33,977
Impairment	<u>(10,258)</u>	<u>(5,854)</u>
Trade receivables, net	39,858	28,123
Bills receivable	<u>624</u>	<u>2,171</u>
	<u><u>40,482</u></u>	<u><u>30,294</u></u>

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

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

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

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

	2020 HK\$'000	2019 HK\$'000
Within 30 days	19,809	16,733
31 to 60 days	11,390	5,514
61 to 90 days	1,949	1,153
Over 90 days	<u>6,710</u>	<u>4,723</u>
	<u><u>39,858</u></u>	<u><u>28,123</u></u>

12. TRADE AND BILLS RECEIVABLES (continued)

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

	2020 HK\$'000	2019 HK\$'000
At beginning of year	5,854	5,148
Impairment losses (note 6)	4,110	803
Exchange realignment	294	(97)
At end of year	<u>10,258</u>	<u>5,854</u>

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

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

	Ageing				Total
	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	
As at 31 December 2020					
Expected credit loss rate	0.07%	2.97%	8.97%	59.12%	20.47%
Gross carrying amount (HK\$'000)	19,823	11,739	2,141	16,413	50,116
Expected credit losses (HK\$'000)	14	349	192	9,703	10,258
As at 31 December 2019					
Expected credit loss rate	0.02%	2.58%	7.67%	54.29%	17.23%
Gross carrying amount (HK\$'000)	16,737	5,659	1,249	10,332	33,977
Expected credit losses (HK\$'000)	4	145	96	5,609	5,854

13. TRADE AND BILLS PAYABLES

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

	2020	2019
	HK\$'000	HK\$'000
Within 30 days	32,145	30,660
31 to 60 days	11,019	6,090
61 to 90 days	8,973	4,983
Over 90 days	1,136	596
	<hr/> 53,273 <hr/>	<hr/> 42,329 <hr/>

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

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Plant and machinery HK\$'000	Office and other equipment HK\$'000	Motor vehicles and yacht HK\$'000	Land HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2020							
At 1 January 2020:							
Cost	106,549	46,129	15,595	17,711	—	4,298	190,282
Accumulated depreciation	(51,453)	(29,208)	(9,488)	(3,934)	—	—	(94,083)
Net carrying amount	<u>55,096</u>	<u>16,921</u>	<u>6,107</u>	<u>13,777</u>	<u>—</u>	<u>4,298</u>	<u>96,199</u>
At 1 January 2020,							
net of accumulated depreciation	55,096	16,921	6,107	13,777	—	4,298	96,199
Additions	2,192	6,129	1,097	37,584	26,019	8,254	81,275
Disposals	—	(705)	(79)	(48)	—	—	(832)
Depreciation provided during the year (note 6)	(7,457)	(3,831)	(1,525)	(5,632)	—	—	(18,445)
Exchange realignment	3,007	1,362	360	487	—	267	5,483
At 31 December 2020, net of accumulated depreciation	<u>52,838</u>	<u>19,876</u>	<u>5,960</u>	<u>46,168</u>	<u>26,019</u>	<u>12,819</u>	<u>163,680</u>
At 31 December 2020:							
Cost	115,376	51,862	17,011	55,625	26,019	12,819	278,712
Accumulated depreciation	(62,538)	(31,986)	(11,051)	(9,457)	—	—	(115,032)
Net carrying amount	<u>52,838</u>	<u>19,876</u>	<u>5,960</u>	<u>46,168</u>	<u>26,019</u>	<u>12,819</u>	<u>163,680</u>

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

The Group's buildings are located in Mainland China.

Certain of the Group's interest-bearing bank borrowings were secured by the Group's buildings with a carrying value of HK\$ 43,720,000 as at 31 December 2020 (2019: HK\$ 40,084,000) (note 15).

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Contractual interest rate	Maturity	HK\$'000	Contractual interest rate	Maturity	HK\$'000
Current						
Lease liabilities	1%~5.125%	2021	779	1%~5.125%	2020	152
Bank loans - secured	PBOC base rate-1.55%/Hibor+2.25%	2021	52,826	Hibor+2.25%	2020	15,000
Current portion of long term bank loans – secured	Hibor+1.7%	2021	15,000			—
			<u>68,605</u>			<u>15,152</u>
Non-current						
Lease liabilities	1%~5.125%	2022	178	1%~5.125%	2021	82
Long term bank loans – secured			—	Hibor+1.7%	2021	25,000
			<u>178</u>			<u>25,082</u>
			<u><u>68,783</u></u>			<u><u>40,234</u></u>

Notes:

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

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

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

	2020 HK\$'000	2019 HK\$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	67,826	15,000
In the second year	—	25,000
	<u>67,826</u>	<u>40,000</u>
Other borrowings repayable:		
Within one year or on demand	779	152
In the second year	178	82
	<u>957</u>	<u>234</u>

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

	Note	2020 HK\$'000	2019 HK\$'000
Property, plant and equipment	14	43,720	40,084
Leasehold land		57,218	46,499
		<u>100,938</u>	<u>86,583</u>

	2020 HK\$'000	2019 HK\$'000
Interest-bearing bank borrowings denominated in:		
– RMB	44,826	—
– HK\$	23,000	40,000
	<u>67,826</u>	<u>40,000</u>

The Group has the following undrawn banking facilities:

	2020 HK\$'000	2019 HK\$'000
Floating rate		
– to expire within one year	<u>108,640</u>	<u>62,973</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

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

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

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

OPERATING ENVIRONMENT AND PROSPECTS

As the global economy is shrouded in the shadow of the political issues, like, trade protectionism and outbreak of pneumonia caused by novel coronavirus (“COVID-19”), there are high uncertainties and rapid 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 trade protectionism, (ii) market demands of products, (iii) supply chain of production materials under the impact of coronavirus crisis, and (iv) changes in the external environment. Meanwhile, by continuously adjusting the diversify 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 continue to strengthen the promotion of its own brands, enhance the relationship with customers and expand into new markets, with a view to continually consolidating and strengthening the Group’s business development.

Despite of the economic slowdown of PRC and heavy pressure caused by COVID-19, the economic foundation of PRC market keep stable in the long run. Therefore, opportunities and challenges coexist. The Group is still prudent and optimistic towards its domestic market, OBM business and personal care products sectors. 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.

To reduce the negative impact of trade protectionism, such as Sino-US trade war, and enhance the manufacturing cost efficiency, the Company strategically acquired a land in Thailand in July 2020 for setting up a new production plant to diversify the production base overseas.

During the year, the acquisition of remaining 30% equity interest in Guangzhou Euro Asia Aerosol & Household Products Manufacture Co., Limited* 廣州歐亞氣霧劑與日化用品製造有限公司, (“Euro Asia Aerosol”) (the “Acquisition”) was completed on 29 December 2020. As at the completion date, the Group owned 100% equity interest in Euro Asia Aerosol.

Euro Asia Aerosol is principally engaged in the design, development, manufacture and sales of personal care products and other products including household products. The financial results of Euro Asia Aerosol had been consolidated into the Group’s financial results for the Reporting Period.

The Board is of the view that by horizontal integrating with the Euro Asia Aerosol, it gives the Group greater flexibility for implementing integration strategies to release the full potential and value of Euro Asia Aerosol’s business. The integration will further contribute its profitability attributable to the Shareholders in future.

FINANCIAL REVIEW

Turnover

For the Reporting Period, the Group's recorded a turnover of approximately HK\$665.7 million (2019: approximately HK\$561.5 million), representing an increase of approximately 18.6% as compared to the corresponding period of 2019.

Automotive beauty and maintenance products segment

For the Reporting Period, the Group's automotive beauty and maintenance products segment has recorded a turnover of approximately HK\$473.9 million (2019: approximately HK\$506.5 million), representing a decrease of approximately 6.4% as compared to the corresponding period of 2019. The decrease in segment revenue was mainly due to temporarily decrease in demand of automotive beauty and maintenance products caused by lockdowns and reduction of economic activities due to COVID-19.

Personal care products segment

For the Reporting Period, the Group's personal care products segment has generated revenue amounting to approximately HK\$191.8 million (2019: approximately HK\$55.0 million), representing a significant increase of approximately 248.7% as compared to the corresponding period of 2019. The increase in segment revenue was mainly due to the Group rapidly developed and launched a series of sanitizer products, including hand gel and aerosol spray to meet the market demand under the pandemic of COVID-19.

Cost of Sales

For the Reporting Period, cost of sales of the Group amounted to approximately HK\$442.1 million (2019: approximately HK\$397.4 million), which represented approximately 66.4% (2019: approximately 70.8%) of the turnover in the period. There was an increase of approximately 11.2% in the cost of sales which was mainly attributable to the net effects of (i) the decrease in the cost of procurement of solvents, being the major raw materials for the production, which was caused by the decrease in crude oil price; (ii) variation of sales of product mix; (iii) the enhancement of production management to lower the manufacturing overhead; and (iv) the increase in sale volume.

Gross Profit and Gross Profit Margin

The Group recorded a gross profit amounted to approximately HK\$223.5 million (2019: approximately HK\$164.2 million), representing a significant increase of approximately 36.1% as compared to the corresponding period of 2019. The increase in gross profit was mainly driven by the sales of products with higher gross profit margins, especially, newly launched products and the decrease in the cost of procurement of solvents, being the major raw materials for the production. The gross profit margin increased to approximately 33.6% (2019: approximately 29.2%).

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 and government grants. During the period, other income and gains of the Group was approximately HK\$14.8 million (2019: approximately HK\$12.7 million), representing an increase of approximately 16.5%, which was mainly due to the net effects of (i) the increase of sales of scrap materials of approximately HK\$1.1 million; (ii) the increase of government grants of approximately HK\$2.0 million; and (iii) the decrease in income from the provision of research and development services of approximately HK\$1.5 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 Reporting Period, selling and distribution expenses were approximately HK\$49.9 million (2019: approximately HK\$54.6 million), representing a decrease of approximately 8.6% as compared to the corresponding period of 2019. The decrease was primarily due to the net effects of (i) the decrease in transportation expenses; (ii) the decrease in entertainment expenses for customers meetings to enhance the relationship with customers; and exhibition expenses for brand building; and (iii) the decrease in travelling expenses due to comply with the guidance of social distance to reduce exposure to COVID-19.

Administrative Expenses

Administrative expenses mainly represent staff salaries, share option expenses, listing expenses, welfare and bonus for our administrative staff and directors' remuneration, professional fees, other taxes and surcharges, and depreciation expenses. For the Reporting Period, administrative expenses were approximately HK\$56.1 million (2019: approximately HK\$45.6 million), representing an increase of approximately 23.0% as compared to the corresponding period of 2019. The increase in administrative expenses was primarily due to the net effects of (i) the increase in staff salaries and welfare to approximately HK\$11.9 million (2019: approximately HK\$7.7 million); (ii) the increase in maintenance costs to approximately HK\$4.1 million (2019: approximately HK\$1.7 million); (iii) the increase in depreciation expenses to approximately HK\$9.5 million (2019: approximately HK\$4.5 million); (iv) the increase in share option expenses to approximately HK\$1.7 million (2019: approximately HK\$1.3 million); and (v) the decrease in professional fees, consulting fee and related costs incurred for listing to approximately HK\$9.2 million (2019: approximately HK\$12.4 million).

Net Profit

The Group's net profit amounted to approximately HK\$63.6 million for the Reporting Period (2019: approximately HK\$38.1 million), representing an increase of approximately 66.9% as compared to the corresponding period in 2019. The significant increase in net profit 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 caused by the COVID-19; (ii) the development of a series of new sanitizer products by the Group to meet the market demand under the pandemic of COVID-19; 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 31 December 2020, the Group had net current assets of approximately HK\$45.1 million (31 December 2019: approximately HK\$108.0 million). The Group's cash and cash equivalents and pledged bank deposits amounted to approximately HK\$165.9 million as at 31 December 2020 (31 December 2019: approximately HK\$138.4 million) which are mainly denominated in Renminbi, United States dollars, Japanese yen, Hong Kong dollars, Thailand Baht, and Indian Rupee. The current ratio of the Group was approximately 1.2 as at 31 December 2020 (31 December 2019: approximately 1.9).

Borrowings and the Pledge of Assets

The bank borrowings of the Group, which were secured by our properties, plant and equipment and land use rights amounted to approximately HK\$67.8 million as at 31 December 2020 with maturity in 2021 (31 December 2019: approximately HK\$40.0 million). All borrowings are charged with reference to bank's preferential floating rates and HIBOR.

As at 31 December 2020, we had available unutilized banking facilities of approximately HK\$108.6 million (31 December 2019: approximately HK\$63.0 million).

Gearing Ratio

As a result of the increase in cash and cash equivalents and the increase in total borrowings of the Group, the gearing ratio which is calculated by dividing net debt by equity attributable to owners of the Company and net debt, amounted to approximately 31.3% as at 31 December 2020 (31 December 2019: approximately -7.9%).

Contingent Liabilities

As at 31 December 2020, the Group had no significant contingent liabilities (31 December 2019: Nil).

Contractual Obligations

As at 31 December 2020, the Group's capital commitment represented the commitment of plant and machinery. As at 31 December 2020, the Group had commitment of plant and machinery of approximately HK\$5.9 million (31 December 2019: approximately HK\$0.2 million).

CAPITAL STRUCTURE

As at 31 December 2020, the total number of issued Shares was 233,544,750 (31 December 2019: 233,544,750).

FOREIGN EXCHANGE EXPOSURE AND EXCHANGE RATE RISK

Approximately 36.3% of the Group's revenue for the Reporting Period were denominated in the United States dollar ("US\$"). However, over 90.0% of the production costs were conducted in RMB. Therefore, there is a currency mismatch between US\$ revenue and RMB production costs, which gives rise to exposure to foreign exchange risk. Furthermore, there is a time lag between invoicing and final settlement from customers of export sales. The Group is exposed to foreign exchange risks if the foreign exchange rate at which the US\$ sales proceeds received from export sales is different from the rate at which the Group used to book the US\$ sales transactions at the time of sales.

During the year ended 31 December 2020, we did not enter into any foreign currency forward contracts or have any outstanding foreign currency forward contracts.

EMPLOYEES AND EMOLUMENTS POLICY

As at 31 December 2020, the Group had a workforce of 511 employees (31 December 2019: 481 employees). The staff costs, including directors' emoluments but excluding any contributions to the pension scheme, were approximately HK\$48.7 million for the Reporting Period (2019: approximately HK\$41.3 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of an individual employee. In addition to a basic salary, year-end bonuses are offered to those staff with outstanding performance to attract and retain eligible employees of the Group. Share options would be granted to certain eligible persons with outstanding performance and contributions to the Group. The emoluments of the Directors have been determined with reference to the skills, knowledge, contribution in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the Reporting Period.

SIGNIFICANT INVESTMENTS

During the Reporting Period, the Group did not have any significant investments (2019: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Discloseable transaction in relation to acquisition of land in Thailand

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 (equivalent to approximately HK\$24,800,000), subject to adjustment. The consideration for the Acquisition of the Land shall be 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 will be 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 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.

Major and connected transaction in relation to acquisition of 30% equity interest in Guangzhou Euro Asia Aerosol & Household Products Manufacture Co., Limited*

On 4 September 2020, China Medical Beauty Bio-Technology Company Limited (“China Medical Beauty”, an indirect wholly-owned subsidiary of the Company), as the purchaser, and European Asia Industrial Limited (“European Asia”, a company incorporated in Hong Kong with limited liability and wholly-owned by Mr. Lin Wan Tsang, the controlling shareholder of the Company), as the vendor, entered into a sale and purchase agreement, pursuant to which China Medical Beauty conditionally agreed to acquire, and European Asia conditionally agreed to sell, 30% of the issued share capital of Euro Asia Aerosol, a company incorporated in the PRC with limited liability and owned as to 70% and 30% by China Medical Beauty and European Asia before the completion of this transaction, at the consideration of HK\$120,000,000 in cash (the “Acquisition of 30% equity interest in Euro Asia Aerosol”). The consideration for the Acquisition of 30% equity interest in Euro Asia Aerosol shall be funded by the Group’s banking facilities.

As European Asia is wholly-owned by Mr. Lin Wan Tsang, the controlling shareholder of the Company, European Asia is regarded as a connected person of the Company. As such, the Acquisition of 30% equity interest in Euro Asia Aerosol constitutes a connected transaction for the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”). Therefore, the Acquisition of 30% equity interest in Euro Asia Aerosol is subject to the reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Taking into account (i) that Euro Asia Aerosol has been an important contributor to the Group’s revenue and profit; (ii) the significant growth in revenue of Euro Asia Aerosol 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 compound annual growth rate of approximately 36.5%; and (iii) the market potential of the Group’s new sanitizer products, it was considered that the Acquisition of 30% equity interest in Euro Asia Aerosol represents an opportunity for the Group to further consolidate its interest in Euro Asia Aerosol which gives the Group greater flexibility for implementing integration strategies to release the potential and value of Euro Asia Aerosol’s business and contributes to the cash flow and profitability of the Group should Euro Asia Aerosol continue to perform in future.

The Acquisition of 30% equity interest in Euro Asia Aerosol was approved by the Shareholders at the extraordinary general meeting held on 29 December 2020 (the “EGM”), which Mr. Lin Wan Tsang and his associates abstained from voting at the EGM as he has a material interest in the Acquisition of 30% equity interest in Euro Asia Aerosol. The Acquisition of 30% equity interest in Euro Asia Aerosol was completed on 29 December 2020.

Details of the Acquisition of 30% equity interest in Euro Asia Aerosol are set out in the announcement of the Company dated 4 September 2020 and the circular of the Company dated 8 December 2020.

Save as disclosed above, during the Reporting Period, the Group had no acquisition or disposal of subsidiaries, associates or joint ventures.

ENTERING INTO OF LETTERS OF INTENT FOR CONSTRUCTION OF A NEW FACTORY IN THAILAND

On 11 November 2020, Precious Dragon Thai entered into a letter of intent (the “Letter(s) of Intent”) with each of S.P. 64 KARNCHANG Co., Ltd (“S.P. 64”) and State Construction Co., Ltd. (“State Construction”) for the construction of a new production plant (the “Factory”) on the Land.

To the best of the Directors’ knowledge, information and belief, after having made all reasonable enquiries, the controlling shareholders of S.P. 64 and State Construction are third parties independent of the Company and its connected persons.

Pursuant to the Letters of Intent, S.P. 64 and State Construction were engaged as the designers and contractors (the “Contractors”) to perform structural and architectural work for the Factory including production lines, warehouse and office. Total contract value (including value-added tax) of the Letters of Intent amounts to approximately Baht 215,890,856 (equivalent to approximately HK\$55,181,703). Upon entering into the Letters of Intent, Precious Dragon Thai made an advance payment of approximately Baht 17,042,386 (equivalent to approximately HK\$4,356,034) to the Contractors. The Group is expected to finance the construction of the Factory by a combination of internal resources and external borrowings.

The construction of the Factory is in line with the Group’s plan to build and develop an overseas manufacturing plant and will, upon completion and operation of the Factory, enable the Group to (i) cope with the changes and impacts that may result from the Sino-US trade war and other international trade barriers; (ii) benefit from the lower cost of raw materials from the surrounding area, enhancing the competitiveness of the Group’s products in Asia; and (iii) diversify the operational risk arising from the increasingly stringent health, safety and environmental policies, laws and regulations in the PRC.

Details of the Letters of Intent are set out in the announcement of the Company dated 11 November 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed herein and in the Company’s prospectus dated 3 June 2019, the Group did not have other approved plans for material investments or capital assets as at 31 December 2020.

CORPORATE GOVERNANCE PRACTICES

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

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the Reporting Period.

DIRECTORS’ SECURITIES TRANSACTIONS

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

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the Reporting Period.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK2.45 cents per share for the year ended 31 December 2020 (2019: HK2.45 cents per share) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 26 May 2021, subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company (the “AGM”) to be held on 12 May 2021. The final dividend will be payable on or before 31 July 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 7 May 2021 to 12 May 2021, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on 6 May 2021.

The register of members of the Company will be closed from 24 May 2021 to 26 May 2021, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited, at the above address for registration not later than 4:30 p.m. on 21 May 2021.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.botny.com>). The annual report of the Company for the year ended 31 December 2020 will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 23 March 2021

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

* *For identification purpose only*