



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

2020  
ANNUAL REPORT



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### 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

## COMMITTEES OF THE BOARD

### Audit Committee

Mr. Poon Tak Ching (*Chairman*)  
Mr. Lee Yiu Pui  
Mr. Pang Cheung Wai, Thomas, GBS, JP

### Remuneration Committee

Mr. Pang Cheung Wai, Thomas, GBS, JP (*Chairman*)  
Ms. Ko Sau Mee  
Mr. Lee Yiu Pui  
Mr. Poon Tak Ching

### Nomination Committee

Mr. Lee Yiu Pui (*Chairman*)  
Ms. Ko Sau Mee  
Mr. Poon Tak Ching  
Mr. Pang Cheung Wai, Thomas, GBS, JP

## AUTHORIZED REPRESENTATIVES

Ms. Ko Sau Mee  
Mr. Lee Kam Fai

## COMPANY SECRETARY

Mr. Lee Kam Fai

## REGISTERED OFFICE

Windward 3  
Regatta Office Park  
P.O. Box 1350  
Grand Cayman  
KY1-1108  
Cayman Islands

## HEADQUARTER OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

No. 628 Jufeng North Road  
Aotou Town  
Conghua District  
Guangzhou City  
Guangdong Province  
People's Republic of China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit G, 20/F., Golden Sun Centre  
Nos. 59/67 Bonham Strand West  
Sheung Wan  
Hong Kong

## AUDITOR

Ernst & Young  
22/F., CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

## COMPLIANCE ADVISER

Rainbow Capital (HK) Limited  
Room 5B, 12/F., Tung Ning Building  
2 Hillier Street, Sheung Wan  
Hong Kong

## CAYMAN ISLANDS PRINCIPAL REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited  
Windward 3  
Regatta Office Park  
P.O. Box 1350  
Grand Cayman  
KY1-1108  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited  
Bank of China Limited  
CTBC Bank Co., Limited

## STOCK CODE

1861

## WEBSITE FOR THE COMPANY

[www.botny.com](http://www.botny.com)

## CHAIRLADY'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Precious Dragon Technology Holdings Limited (the "Company"), I am pleased to present to the shareholders of the Company (the "Shareholders") the annual report and audited consolidated financial statements of the Company together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2020 (the "Reporting Period").

### RESULTS

During the Reporting Period, the Group's total turnover was approximately HK\$665.7 million, representing an increase by approximately 18.6% compared to that of last year (2019: approximately HK\$561.5 million) while the Group's profit attributable to owners of the parent for the year amounted to approximately HK\$53.2 million, increased by approximately 42.2% compared to the prior year (2019: approximately HK\$37.4 million).

### DIVIDENDS

The Board has resolved to recommend a final dividend of HK2.45 cents per share of the Company (the "Share") for the Reporting Period (2019: HK2.45 cents per Share).

During the Reporting Period, an interim dividend of HK2.00 cents per Share was declared.

### 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 diversified strategy and customer management, actively participating in various types of exhibitions in the People's Republic of China ("PRC") and around the world and launching new products to meet market demands, the Group will 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 keeps stable in the long run. Therefore, opportunities and challenges coexist. The Group is still prudent and optimistic towards its domestic market, Original Brand Manufacturing ("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.

\* For identification purpose only

## CHAIRLADY'S STATEMENT

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.

### GRATITUDE

On behalf of the Company, I would like to express my sincere gratitude to our valued Shareholders, customers, banks and to our management and employees for their continuous trust and support to the Group.

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

# 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, sanitizer 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.

## 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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).

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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

As at 31 December 2020, the Group did not have any significant investments (31 December 2019: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

\* For identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

### EVENTS AFTER THE REPORTING PERIOD

There were no significant events after 31 December 2020 and up to the date of this report.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

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

Pursuant to code provision A.2.1 of the CG Code, the roles of chairlady 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.

## 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.

## CHAIRLADY AND CHIEF EXECUTIVE

Code provision A.2.1 of the CG Code stipulates that the roles of chairlady and chief executive should be separate and should not be performed by the same individual. The Company does not segregate the roles of chairlady and chief executive and Mrs. Lin currently holds both positions, as explained in the paragraph headed "Corporate Governance Practices" in the Corporate Governance Report.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, legal and business. Their skills, expertise and number in the Board ensure that strong independent views and judgment are brought in the Board's deliberations and that such views and judgment carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of the Shareholders and the Company.

Each of the independent non-executive Directors gives the Company an annual confirmation of his independence. The Company considers such Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

## CORPORATE GOVERNANCE REPORT

### THE BOARD

#### Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 62 to 65.

#### Function of the Board

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. All Directors have full and timely access to all the information of the Company as well as the services and advice from the senior management and company secretary of the Company (the "Company Secretary"). The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

#### Board Composition

Currently, the Board comprises four executive Directors and three independent non-executive Directors. The Company has complied with Rules 3.10 and 3.10A of the Listing Rules. During the Reporting Period, the number of independent non-executive Directors represents more than one-third of the Board. As such, there exists a strong independent element in the Board, which can effectively exercise independent judgment.

The Board comprises the following Directors:

#### 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

The brief biographical details of and relationship between the existing Directors are set out in the paragraph headed "Biographical Details of Directors and Senior Management" on pages 46 to 49. Ms. Lin Hing Lei and Mr. Lin Hing Lung are the daughter and son of Ms. Ko Sau Mee. And Ms. Lin Hing Lei is the sister of Mr. Lin Hing Lung. Save as disclosed above, there are no other relationships (including financial, business, family or other material/relevant relationships among the members of the Board.

## CORPORATE GOVERNANCE REPORT

### Appointment and Re-election of Directors

All Directors are appointed for specific terms. Ms. Ko Sau Mee, Ms. Lin Hing Lei, Mr. Lin Hing Lung and Mr. Yang Xiaoye have entered into a service agreement with the Company for a term of 3 years commencing from 21 June 2019 and will continue thereafter. Mr. Lee Yiu Pui, Mr. Poon Tak Ching and Mr. Pang Cheung Wai, Thomas have entered into a letter of appointment with the Company for a term of 1 year commencing from 21 June 2019 and will continue thereafter.

The Company has adopted "Directors Nomination Procedures" as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. An external recruitment agency may be engaged to carry out the recruitment and selection process as necessary. Besides, the procedures and process of appointment, re-election and removal of Directors are laid down in the articles of association of the Company (the "Articles"). According to the Articles, all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's annual general meeting (the "AGM"). Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by the Shareholders at the first general meeting after his/her appointment and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the next AGM.

In accordance with the Articles, Ms. Ko Sau Mee, Ms. Lin Hing Lei and Mr. Lin Hing Lung shall retire and, being eligible, offer themselves for re-election at the forthcoming AGM to be held on 12 May 2021. The Board and the nomination committee of the Company recommend their re-appointments. The Company's circular, sent together with this annual report, contains detailed information of the three Directors as required by the Listing Rules.

### Directors' Training

All Directors confirmed that they had complied with code provision A.6.5 of the CG Code during the Reporting Period. All Directors had participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

A record of the Directors' participation in various continuous professional development program is kept with the Company. The external course the Directors had participated was about Guidance for Boards and Directors. A summary of the Directors' participation in training and continuous professional development during the year ended 31 December 2020 according to the records provided by the Directors is as follows:

| Names of Directors                                      | Training organised<br>by professional<br>organizations | Reading materials<br>updating on new rules<br>and regulations |
|---|--|---|
| <b>Executive Directors</b>                              |  |   |
| Ms. Ko Sau Mee ( <i>Chairlady and Chief Executive</i> ) | ✓  | ✓   |
| Ms. Lin Hing Lei  | ✓  | ✓   |
| Mr. Lin Hing Lung                                       | ✓  | ✓   |
| Mr. Yang Xiaoye   | ✓  | ✓   |
| <b>Independent Non-executive Directors</b>              |  |   |
| Mr. Lee Yiu Pui   | ✓  | ✓   |
| Mr. Poon Tak Ching                                      | ✓  | ✓   |
| Mr. Pang Cheung Wai, Thomas, GBS, JP                    | ✓  | ✓   |

## CORPORATE GOVERNANCE REPORT

### UPDATE ON DIRECTOR'S INFORMATION

There has been no change to the information of the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

### BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy. The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

During the Reporting Period, the Company has a solid slate of Directors with diverse perspectives and varied educational background and expertise made-up, from extensive knowledge of the manufacturing industry, experience in international trade, finance and corporate management, to professional qualifications in the legal and accounting fields. Each Director had accumulated experience in his/her respective field of expertise, all of whom are anchored by the common trait of having a natural aptitude and singular drive for the industry so as to bring sustainable growth to the Company.

### NOMINATION POLICY

The Board has adopted the nomination policy (the "Nomination Policy") which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

To nominate director candidates, candidates would be identified by various methods and evaluated based on the approved selection criteria. Shortlisted candidates would be interviewed and their profiles would be reviewed, before making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

## CORPORATE GOVERNANCE REPORT

### Board Meeting and Procedures

The Board may meet together for the despatch of business, adjourn and otherwise regulate its meetings and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. An AGM and an extraordinary general meeting called for the passing of a special resolution shall be called by at least 21 days' notice in writing, and a meeting of the Company other than an AGM or an extraordinary general meeting for the passing of a special resolution shall be called by at least 14 days' notice in writing. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have connected relations, such Director shall not exercise his/her voting rights on such proposal nor shall he/she exercise any voting rights on behalf of other Directors.

Set out below are details of the attendance record of each Director at the Board and committee meetings of the Company held during the Reporting Period:

| Names of Directors                         | Attendance/Number of Meetings Held |                         |                        |                      |                 |
|--|------------------------------------|-------------------------|------------------------|----------------------|-----------------|
|  | Board Meeting                      | Audit Committee Meeting | Remuneration Committee | Nomination Committee | General Meeting |
| <b>Executive Directors</b>                 |                                    |                         |                        |                      |                 |
| Ms. Ko Sau Mee                             | *7/7                               | —                       | 1/1                    | 1/1                  | 2/2             |
| Ms. Lin Hing Lei                           | 7/7                                | —                       | —                      | —                    | 2/2             |
| Mr. Lin Hing Lung                          | 7/7                                | —                       | —                      | —                    | 2/2             |
| Mr. Yang Xiaoye                            | 7/7                                | —                       | —                      | —                    | 2/2             |
| <b>Independent non-executive Directors</b> |                                    |                         |                        |                      |                 |
| Mr. Lee Yiu Pui                            | 7/7                                | 3/3                     | 1/1                    | *1/1                 | 2/2             |
| Mr. Poon Tak Ching                         | 7/7                                | *3/3                    | 1/1                    | 1/1                  | 2/2             |
| Mr. Pang Cheung Wai, Thomas, GBS, JP       | 7/7                                | 3/3                     | *1/1                   | 1/1                  | 2/2             |

**Remark:**

\* representing the chairperson of the Board or the committees

The Board has established three committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee"), for overseeing particular aspects of the Company's affairs. All committees have been established with defined written terms of reference, which were posted on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.botny.com](http://www.botny.com)). All committees should report to the Board on their decisions or recommendations made.

All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

## CORPORATE GOVERNANCE REPORT

### 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 auditor, 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.

During the Reporting Period, the Audit Committee held three meetings for discussion on issues arising from the audit and financial reporting matters.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval and all decisions of the Audit Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The external auditor was invited to attend the Audit Committee meeting held during the year to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters. The chairman of the Audit Committee provided the Board with a briefing on the significant issues after the Audit Committee meeting. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor.

### Remuneration Committee

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 provision 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.

During the Reporting Period, the Remuneration Committee held one meeting to review and discuss the remuneration policy of the Group and the remuneration packages of the Directors.

Full minutes of the Remuneration Committee meeting are kept by the Company Secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

## CORPORATE GOVERNANCE REPORT

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2020 is set out below:

| Remuneration bands         | Number of persons |
|----------------------------|-------------------|
| Nil to HK\$300,000         | 2                 |
| HK\$300,001 to HK\$500,000 | 1                 |

### Nomination Committee

The Board would follow a set of formal, considered and transparent procedures for the appointment of new directors to the Board. The appointment of a new director has been a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

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 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.

During the Reporting Period, the Nomination Committee held one meeting to review the current Directors' structure and to monitor the overall adequacy of the Board's composition.

Full minutes of the Nomination Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Nomination Committee meetings are sent to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

### CORPORATE GOVERNANCE FUNCTION

The Board does not have a corporate governance committee. The functions that would be carried out by a corporate governance committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## CORPORATE GOVERNANCE REPORT

The corporate governance policy is formulated with an emphasis on the Board's quality, effective risk management and internal control, stringent disclosure practices and transparency and accountability to all Shareholders. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

### EXTERNAL AUDITOR'S REMUNERATION

During the Reporting Period, the Company engaged Ernst & Young as its external auditor for financial reporting, while the Company engaged the external PRC local auditor for the subsidiaries statutory audit services.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

During the Reporting Period, the fees payable to Ernst & Young and PRC local auditor in respect of its statutory audit services, non-statutory audit services and non-audit services provided to the Company were as follows:

|                              | <b>2020</b><br><b>HK\$000</b> |
|------------------------------|-------------------------------|
| Statutory audit services     | <b>1,478</b>                  |
| Non-statutory audit services | <b>1,209</b>                  |
| Non-audit services*          | <b>217</b>                    |

\* Significant non-audited service assignments include taxation consultation (HK\$179,000 was paid).

### DELEGATION BY THE BOARD

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

### COMPANY SECRETARY

Being the Company Secretary, Mr. Lee Kam Fai plays an important role in supporting the Board by ensuring good information flow within the Board and that the Board policies and procedures are followed. Mr. Lee Kam Fai is responsible for advising the Board on corporate governance matters and should also facilitate induction and professional development of the Directors.

During the Reporting Period, Mr. Lee Kam Fai has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

### SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

## CORPORATE GOVERNANCE REPORT

### Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more Shareholders, at the date of deposit of the requisition, holding not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisition(s) himself (themselves) may do so in the same manner.

### Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

### Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders are requested to follow article 64 of the Articles for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 113 of the Articles, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for the Shareholders to propose a person for election as a Director are posted on the website of the Company. Shareholders may refer to the above procedures for putting forward any other proposals at general meetings.

### Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

### DIVIDEND POLICY

The Board has adopted the dividend policy (the "Dividend Policy") which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the Shareholders. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

### INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to the Shareholders. Information of the Company is disseminated to the Shareholders in the following manner:

- Delivery of annual and interim results and reports to all Shareholders;

## CORPORATE GOVERNANCE REPORT

- Publication of announcements on the annual and interim results on the website of the Stock Exchange, and issue of other announcements and Shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and the Shareholders.

### Constitutional Documents

There was no significant change in the constitutional documents of the Company during the Reporting Period.

### RISK MANAGEMENT AND INTERNAL CONTROL

Maintaining sound and healthy risk management and internal control systems are the keys to fulfil the business objectives and long-term sustainable growth of the Group. The Board has recognized they are generally responsible for the assessment and determination on the nature and degree of risks which are acceptable by the Group for meeting its strategic objectives, ensuring the Group to establish and maintain proper and effective risk management and internal control systems.

### RISK CATEGORIES

The business development, financial conditions, operating results or prospect of the Group might be affected by risks and uncertainties, leading to a result probably deviated from the expected or past performance. Certain major risks which have impacts on the Group are listed below.

#### Strategic risks

The financial risks encountered by the Group include, amongst others, those arising from the mismatch of departmental human resources allocation, division of roles and responsibilities, ineffective motivation mechanism for the management, accommodation of the core business of the Group with China's macro policies on the industry and environmental protection as well as whether a good relationship is maintained between the government and media respectively.

In view of the above risks, the Group has implemented appropriate departmental human resources allocation, definite division of roles and responsibilities and effective motivation and disciplinary mechanisms for the management. Leveraging the policy of China on promoting the development of metallic packaging, the Group has actively enhanced its innovation and competitiveness, maintained good relationship with the governments of various levels and implemented crisis communication mechanism.

#### Financial Risks

The strategic risks encountered by the Group include, amongst others, those involved in fund misappropriation arising from poor management in fund activities, undisciplined operation arising from unsound or informal preparation, implementation and management of budgets, intended or unintended false information existed in financial statements, the compliance of those statements with accounting rules and standards, uncertainties in taxation management and tax payment, inadequate assessment of customers' credit.

In view of the above risks, the Group has strengthened the accounting system control on its working capital, prepared the overall annual budget, launch the accountability system for budget implementation, budget appraisal system, sales management system, review, approval and oversight system for tax payment. Meanwhile, the Group has determined its financing plans in connection with those from bankers, prepared monthly fund budget to spread the cash-flow risks.

## CORPORATE GOVERNANCE REPORT

### Operating risks

The operating risks encountered by the Group include, amongst others, those arising from whether safety and environmental protection standards are met by the production of our products, management of human resources, sales, supply chains and information system, insufficient innovation, inspection and verification of technologies and products.

In view of the above risks, the Group has focused on the control and monitoring of dust, high temperature and chemical hazard, discharged sewage according to the total amount and concentration allowed under the pollutant discharge license, formulated the status-quo assessment on energy conservation and emission reduction as well as medium and long term planning, timely updated the staff handbook and implemented applicable labor laws and regulations, introduced advanced technologies and talents, solved the innovation problems through technological exchange and cooperation. Meanwhile, the Group strived to explore new customers and new sales channels, assess the suppliers regularly, inspect regularly and maintain the facilities of the information system and provide staff training.

### Legal risks

The legal risks encountered by the Group include, amongst others, those arising from the physical or existing default operations, legal disputes, default behaviors, intellectual property and human rights protection.

In view of the above risks, the Group has implemented the measures such as the contract review and approval procedure with the routine support of our permanent legal advisor, regular third-party audit to monitor compliance so as to mitigate the impact of such risks on the Group.

### ANNUAL CONFIRMATION

The Board has been continuing to monitor the risk management and internal control systems of the Group, and has made an annual review, through the Audit Committee, on the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2020.

Meanwhile, the Company commissioned a third-party professional body to make an internal audit on the effectiveness of the design and the compliance regarding the implementation of the internal control systems relating to its risk management, control and governance practices. The Audit Committee under the Board has made an annual review on the effectiveness of the risk management and internal control systems for the year ended 31 December 2020, and reviewed the results of assessment on the internal control systems made by the third party. The Board considers the system of the Group is effective and adequate accordingly.

Any internal control system has its own restrictions; therefore, the internal control systems of the Group are established to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board approved and adopted an inside information policy and procedures for the handling and dissemination of inside information. The insider information policy provide the guidelines to the Directors, management and relevant staff (likely possessing the unpublished inside information) of the Group to ensure that the inside information of the Group is to be disseminated to the public in equal and timely manner in accordance with the applicable laws and regulations. The procedures include, among others, regularly remind the Directors, management and relevant staff about the compliance with the securities dealing restrictions as set out in the Model Code and the notification of the 60-day and 30-day blackout period applicable to the publication of the annual and interim results of the Company respectively.

All Directors and those employees who could have access to, and monitor, the information of the Group are responsible for making appropriate precautions to prevent abuse or misuse of such information. Employees of the Group are prohibited from using inside information for their own benefit.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

### Introduction

Precious Dragon Technology Holdings Limited (the “Company” together with its subsidiaries, collectively, “we”, “us”, “our” or the “Group”) is pleased to present our annual Environmental, Social and Governance Report (the “Report”) for the year ended 31 December 2020 to provide an overview of the Group’s management of significant issues affecting the operation, including environmental, social and governance (“ESG”) issues.

The Board has overall responsibility for the Group’s ESG strategy and reporting. The Board is responsible for evaluating and determining the Group’s ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management will regularly report the relevant state to the Board. The Group has also conducted annual review on the effectiveness of the Environmental, Social and Governance Report for the year ended 31 December 2020.

### Reporting Year

The Report illustrated the Group’s initiative and performance on the environmental and social aspects for the period from 1 January 2020 to 31 December 2020 (the “Reporting Period”).

### Reporting Scope And Boundary

The reporting scope of this Report covers all subsidiaries of the Group in the People’s Republic of China (the “PRC”) with core business that principally engaged in the content filling of aerosol cans, and the production and sale of aerosol and non-aerosol products.

The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in this Report.

### Reporting Basis and Principle

This Report was prepared in accordance to the Environmental, Social, and Governance Reporting Guide (“ESG Reporting Guide”) set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Group has complied with the disclosure requirements of the “comply or explain” provisions set out in the ESG Reporting Guide. Based on our disclosure of certain key performance indicators (“KPIs”), which is considered as material by the Group, during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs. This Report was prepared and published in both English and Chinese. In the event of contradiction or inconsistency, the Chinese version shall prevail. For more information on our corporate governance, please refer to the “Corporate Governance Report” on pages 12 to 22 of the annual report of the Company for the year ended 31 December 2020.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Report has complied with the following reporting principles as the basis:

- **Materiality**

The Group determines relevant ESG issues through stakeholder engagement and materiality assessment. For details, please refer to the section headed "Stakeholders Engagement" and "Materiality Assessment".

- **Quantitative**

The Group's disclosure of KPIs related to historical data can be measured and the Group is committed to disclosing information on standards, methods, assumptions or calculation tools used in quantitative data and the source of conversion factors used when feasible.

- **Balance**

The Group avoids selections, omissions or presentation formats that may inappropriately influence the readers' decisions or judgment.

- **Consistency**

The Group is committed to using consistent methodologies for meaningful comparisons. The Group will disclose changes in methodologies or KPIs or any other relevant factors that affect meaningful comparisons when necessary.

The information contained herein is sourced from official documents and statistics of the Group, as well as the combined monitoring, management and operations information provided by the subsidiaries in accordance with the Group's related procedures. A complete content index is appended to the last part hereof for readers' quick reference.

### Contact Information

The Group welcomes your feedback on the Report for our sustainability initiatives. Please contact us by email to [esg@botny.com](mailto:esg@botny.com).

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### STAKEHOLDER ENGAGEMENT

The Group values the engagement of our stakeholders. Whether they are our employees, customers, suppliers and other stakeholders, they have a significant impact on the success of our business or activities. We identified the key stakeholders of our business operations. We interact with our stakeholders regularly through various communication channels. The following table illustrates the issues of concern of our major stakeholders and the ways we communicate with stakeholders:

| Stakeholder                | Stakeholders' concern  | Communication channels  | Engagement details   |
|----------------------------|--|---|--|
| Government                 | <ul style="list-style-type: none"> <li>To comply with the laws</li> <li>Proper tax payment</li> <li>Ensure production safety, environmental protection and social responsibility</li> <li>Promote regional economic development and employment</li> </ul>  | <ul style="list-style-type: none"> <li>On-site inspections and checks</li> <li>Research and discussion through work conferences, work reports preparation and submission for approval</li> </ul>  | <ul style="list-style-type: none"> <li>Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation, and actively undertook social responsibilities.</li> </ul>  |
| Shareholders and Investors | <ul style="list-style-type: none"> <li>Return on the investment</li> <li>Stable operation</li> <li>Low operating risk</li> <li>Information disclosure and transparency</li> <li>Protection of interests and fair treatment of shareholders</li> <li>True, accurate and timely reporting</li> </ul> | <ul style="list-style-type: none"> <li>Annual general meeting and other shareholder meetings</li> <li>Interim reports, annual report, announcements</li> <li>Company Website</li> <li>Meeting with investors</li> <li>Roadshow</li> <li>Site visit</li> </ul> | <ul style="list-style-type: none"> <li>Issued notices of general meeting and proposed resolutions according to regulations; disclosed company's information by publishing announcements/circulars, interim report and annual report in the year; Carried out different forms of investor activities with an aim to improve investors' recognition; Held results briefing once; Disclosed company contact details on website and in reports; and ensured all communication channels available and effective.</li> </ul> |
| Employees                  | <ul style="list-style-type: none"> <li>Safeguard the rights and interests of employees</li> <li>Salary and welfare</li> <li>Working environment</li> <li>Career development opportunities</li> <li>Self-actualization</li> <li>Health and safety</li> </ul>  | <ul style="list-style-type: none"> <li>Labour union</li> <li>Feedback box</li> <li>Wechat of director</li> <li>Policies and procedures</li> <li>Training, seminars, briefing sessions</li> <li>Team activities</li> </ul>                                     | <ul style="list-style-type: none"> <li>Provided a healthy and safe working environment; established a labour union; established policies and procedures according to local labour law; developed communication channel with management; developed a fair mechanism for promotion; cared for employees by helping those in need and organizing employee activities;</li> </ul>  |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Stakeholder                | Stakeholders' concern  | Communication channels  | Engagement details  |
|----------------------------|--|---|---|
| Customers                  | <ul style="list-style-type: none"> <li>Assurance on quality and quantity of product</li> <li>Stable relationship</li> <li>Group reputation and brand image</li> <li>Market demand</li> </ul>                         | <ul style="list-style-type: none"> <li>Site visit</li> <li>Exhibition</li> <li>Email and customer service hotline</li> <li>Feedback forms</li> <li>Regular meeting</li> </ul> | <ul style="list-style-type: none"> <li>Organised marketing activities, site visit and exhibition</li> </ul>   |
| Suppliers/Partners         | <ul style="list-style-type: none"> <li>Long-term partnership</li> <li>Honest cooperation</li> <li>Fair, open</li> <li>Information resources sharing</li> <li>Timely payment</li> </ul>                               | <ul style="list-style-type: none"> <li>Strategic co-operation</li> <li>Regular meeting</li> <li>Tendering process</li> </ul>  | <ul style="list-style-type: none"> <li>Invited tenders publicly to select best suppliers and contractors, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors</li> </ul>  |
| Peer/Industry associations | <ul style="list-style-type: none"> <li>Experience sharing</li> <li>Corporations</li> <li>Fair competition</li> <li>Focus on adoption of latest technology</li> </ul>   | <ul style="list-style-type: none"> <li>Industry conference</li> <li>Site visit</li> <li>Website</li> <li>Industry magazine</li> </ul>   | <ul style="list-style-type: none"> <li>Stuck to fair play, cooperated with peers to realize winwin, shared experiences and attended seminars, exhibitions and meetings of the industry so as to promote sustainable development of the industry.</li> </ul>   |
| Financial Institution      | <ul style="list-style-type: none"> <li>Compliance with the law and regulations</li> <li>Disclosure of information</li> </ul>   | <ul style="list-style-type: none"> <li>Consulting</li> <li>Information disclosure</li> <li>Reports</li> </ul>   | <ul style="list-style-type: none"> <li>Complied with regulatory requirements in a strict manner, disclosed and reported true information in a timely and accurate manner according to law</li> </ul>  |
| Bank                       | <ul style="list-style-type: none"> <li>Timely repayment of loan</li> <li>Honest cooperation</li> <li>Stable operation</li> </ul>   | <ul style="list-style-type: none"> <li>Regular meeting</li> <li>Site visit</li> </ul>   | <ul style="list-style-type: none"> <li>Paid interest according to instalment schedule and cooperated with bank for inspection and monitoring</li> </ul>   |
| Public and communities     | <ul style="list-style-type: none"> <li>Community involvement including local employment opportunity</li> <li>Development of local economy</li> <li>Environment protection</li> <li>Subsidy and assistance</li> </ul> | <ul style="list-style-type: none"> <li>Volunteering</li> <li>Charity and social investment</li> <li>Annual report</li> </ul>  | <ul style="list-style-type: none"> <li>Gave priority to local people seeking jobs from the Company so as to promote community building and development; built roads, protected the communities' ecological environment, and provided timely compensation and assistance; provided volunteer service, kept communication channels open between the Company and the communities and villagers, co-sponsored community activities to promote the building up of harmonious communities.</li> </ul> |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### MATERIALITY ASSESSMENT

The Group identifies issues for disclosure in the Report through internal and external materiality assessment. By considering the dependence and influence of the stakeholders on the Group and the availability of resources of the Group, the management has identified key stakeholders and conducted surveys with them. They have expressed their opinions and recommendations on issues related to the Group's operation via the surveys. After the consolidation of the internal assessment and survey results, the Group concluded the most important issues of this year:



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### ENVIRONMENTAL ASPECTS

#### Environmental Management

##### ASPECT A1: EMISSIONS

To demonstrate commitment to sustainable development and compliance with laws and regulations relating to environmental protection, the Group endeavors to minimise the environmental impact of the business activities and maintain green operations and green office practices.

Our Group's operations are subject to certain environmental requirements pursuant to the laws in the PRC, including but not limited to PRC Environmental Protection Law\* (《中華人民共和國環境保護法》), the PRC Law on Prevention and Control of Water Pollution\* (《中華人民共和國水污染防治法》) and the Guangdong Province Work Programme on the Comprehensive Treatment and Emission Reduction on Volatile Organic Compounds (2018-2020)\* (廣東省揮發性有機物 (VOCs) 整治與減排工作方案 (2018-2020年)). The Group has been in strict compliance with the above relevant laws and regulations in the PRC. We endeavour to minimise any adverse impact on the environment resulting from our business activities. In order to comply with the applicable environmental protection laws, we had implemented a series of below key measures and procedures concerning mainly air pollutant, GHG emission and waste control.

During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations related to environmental protection.

#### Air Pollutant

The Group's air pollutant emissions are primarily from vehicles, fuel used by factories and offices. Besides, the content of our products include propellant, which is a liquefied (or) compressed gas within aerosol products that releases content with predetermined forms through a valve. The propellant we use in our production can be broadly classified into VOC (such as dimethyl ether ("DME") and liquefied petroleum gas) and non-VOC (such as carbon dioxide, nitrogen and compressed air) categories and we mainly use DME and liquefied petroleum gas as propellant for our products. Our production involves the use and storage of such propellant gases which are flammable and to a certain extent, environmentally hazardous. In determining the type of propellant used in our products, we will take into consideration the functional requirement of the relevant products, the costs of purchase, the regulatory requirements imposed by the governmental authorities and the overall safety of our products. We are prone to use propellant that is more environmentally friendly and cost efficient.

In 2019, the Company completed the filing of One Enterprise One Policy for VOCs Integrated Management Program and had passed the examination by relevant environmental protection department. Total VOCs emission was reduced from 21.32 tons/year to 7.52 tons/year, fully demonstrating the Company's determination to emission regulation. On the other hand, in order to improve exhaust gas emission, most models of our fleet have adopted the latest China VI Emission Standards 2020 for the year. We have also switched to cleaner fuels (such as liquefied petroleum gas) to reduce air pollution. In 2020, the Group's nitrogen oxide emissions mainly derived from the combustion of diesel in the factories. The following is the exhaust gas data of our fleet and factories:

|                              | Air Pollutant <sup>1</sup> |               |        |
|------------------------------|----------------------------|---------------|--------|
|                              | Unit                       | 2020          | 2019   |
| Sulphur dioxide              | kg                         | <b>67.18</b>  | 65.33  |
| Nitrogen oxides <sup>2</sup> | kg                         | <b>275.44</b> | 241.71 |
| Particulate matter           | kg                         | <b>25.80</b>  | 4.76   |

<sup>1</sup> A consistent comparison with the data of last year has not been made as calculating methods may be different from the previous year.

<sup>2</sup> As the calculation method for this year has been changed, the data in 2019 has also been re-stated accordingly.

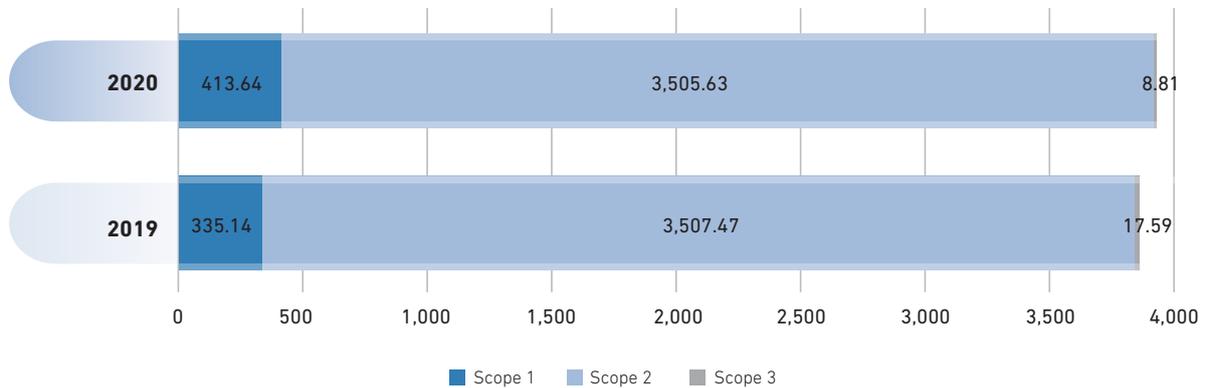
\* For identification purpose only

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### GHG emissions

In response to the climate change, we have been committed to taking proactive initiatives to gradually formulate and adopt green policies so as to reduce GHG emissions generated from business operations. We have implemented the energy conservation measures described in the section headed "Use of Resources". In 2020, the Group's GHG emissions were mainly from Scope 2, representing 89.2% of the total emissions. The Group's GHG emissions<sup>3</sup> by scopes are set out below:

### TOTAL GHG emissions by SCOPES



### GHG Emissions

|                      | Unit                     | 2020            | 2019     |
|----------------------|--------------------------|-----------------|----------|
| Scope 1 <sup>4</sup> | tCO <sub>2</sub> e       | 413.64          | 335.14   |
| Scope 2 <sup>5</sup> | tCO <sub>2</sub> e       | 3,505.63        | 3,507.47 |
| Scope 3 <sup>6</sup> | tCO <sub>2</sub> e       | 8.81            | 17.59    |
| <b>Total</b>         | tCO <sub>2</sub> e       | <b>3,928.08</b> | 3,860.20 |
| <b>Intensity</b>     | tCO <sub>2</sub> e /sq.m | <b>0.05</b>     | 0.02     |

<sup>3</sup> GHG emissions are calculated with reference to the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purpose) in Hong Kong issued by the Environmental Protection Department, 2011-2012 Average CO<sub>2</sub> Emission Factors of China's Regional Power Grids and the "Corporate Accounting and Reporting Standard" from greenhouse gas protocol.

<sup>4</sup> Scope 1: Direct emission from vehicles that are owned by the Group

<sup>5</sup> Scope 2: Indirect emissions from the generation of purchased electricity consumed by the Group. As the calculation method for this year has been changed, the data in 2019 has also been re-stated accordingly.

<sup>6</sup> Scope 3: Covering all other indirect GHG emissions outside the Company, including the indirect emissions generated from employees' business travels by air only

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Waste Management

Our hazardous waste produced mainly consists of organic solvent used during the production process. Non-hazardous waste mainly includes packaging paper scraps and household waste. They are separately stored and handled with the ledger for record. As our production process involves the use and storage of hazardous materials, it is always our top concern to comply with the applicable environmental laws and regulations in the PRC and avoid the occurrence of any environmental contamination event during our production activities. As a result, we continuously observe the laws and regulations in relation to environmental protection as amended from time to time in the PRC. In practice, in order to properly control the disposal of our production wastes, we have formulated detailed environmental protection rules and guidance for our staff to follow during production. In addition, to ensure that the quantities and rates of our production discharge are in compliance with the applicable environmental laws and regulations, we engage qualified third-party pollutant supervision companies to examine, monitor and provide advices on our pollutant discharge conditions for each financial year. To protect the environment, we have formulated relevant policies in respect of the waste management to minimise the waste of papers and other resources.

|  | Waste | Unit      | 2020          | 2019   |
|--|-------|-----------|---------------|--------|
| Hazardous waste                          |       | tons      | 64.38         | 30.30  |
| Non-hazardous waste                      |       | tons      | 126.23        | 164.92 |
| <b>Total</b>                             |       | tons      | <b>190.61</b> | 195.22 |
| <b>Intensity for hazardous waste</b>     |       | tons/sq.m | <b>0.0008</b> | 0.0002 |
| <b>Intensity for non-hazardous waste</b> |       | tons/sq.m | <b>0.0015</b> | 0.0010 |

### Highlight of other measures for reduction of emissions

#### Highlight of other measures for reduction of emissions

|                          |  |
|--------------------------|--|
| Air pollutant and GHG    | <ul style="list-style-type: none"> <li>• Providing crew buses for collective transportation to reduce the use of limousine buses and private cars</li> <li>• Passing the examination of environmental department and accomplishing the "One Enterprise One Policy for VOCs Integrated Management Program"</li> <li>• Renovating exhaust gas and dust collecting channels in production workshops to reduce emission from the hazardous substances effectively</li> </ul>   |
| Wastewater               | <ul style="list-style-type: none"> <li>• Continuously optimizing and upgrading sewage treatment.</li> </ul>  |
| Raw materials and wastes | <ul style="list-style-type: none"> <li>• Construction of a septic tank</li> <li>• Encouraging staff to reduce waste. For example: reusing paper and approving documents via electronic approval system to reduce paper consumption</li> </ul>  |
| Green production model   | <ul style="list-style-type: none"> <li>• Actively researching and developing environmentally friendly formulations, such as products with water-based formulations and low VOC formulations.</li> <li>• Promoting clean production and upgrading machinery</li> <li>• Establishing an environmental management system for the production of aerosol and non-aerosol products in compliance with ISO 14001 and attained relevant certification</li> <li>• Establishing quality management system to be recognised by world-renowned corporate customers</li> <li>• Introducing smart equipment (smart examination, smart packaging and conveying system) in workshops to conserve raw materials for production and labor costs</li> </ul> |
| Noise                    | <ul style="list-style-type: none"> <li>• Eliminating old equipment in the production line and investing in equipment with insulating effect to reduce noises</li> </ul>  |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### ASPECT A2: USE OF RESOURCES

The Group places high priority on the efficient use of resources. The major resources used by the Group are electricity and water. The Group strives to improve the efficient use of natural resources, such as minimising waste/emissions and implementing effective recycling program. Practical measures are implemented as follows.

- Switching off lights and turning off unnecessary energy-consuming devices when staff leaves the office.
- Adopting LED lighting in some production workshops and offices.
- Using frequency conversion air compressor and air compressor heat recovery during some of our productions to reduce energy consumption.
- Utilising materials that facilitate clean production environment to effectively reduce the consumption of detergents and running water.
- Bringing our own cups to avoid using paper cups.
- Improving product packaging forms to conserve the consumption of carton materials.

In terms of water consumption, our water resources are mainly used in the production process and for the domestic use of our employees. All water is provided by a third-party water supplier, and there is no problem with suitable water sources. In 2020, we generated 65.55 metric tons of sewage during the production process. The produced sewage will be cleaned up by a third-party company or go through a series of sewage treatment procedures to ensure compliance with national and provincial discharge standards before discharge. Our goal is to invest RMB400,000 in wastewater treatment in 2021 to reduce emissions and the impact on the surrounding water environment.

In terms of energy consumption, our energy consumption in 2020 increased by approximately 1.7% from that in 2019, not much different. The energy consumption of the Group mainly comes from production machinery and vehicles, which includes the consumption of electricity, gasoline, diesel and natural gas.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Looking forward, the Group will continue to monitor the use of resources of the Group, improve data collection and monitoring, and review our resource management and allocation system in a timely manner in order to save energy. The Group's data on use of resources are as follows:

| Energy Consumption             |         |                  |           |
|--------------------------------|---------|------------------|-----------|
|                                | Unit    | 2020             | 2019      |
| Unleaded petrol                | GJ      | 29.57            | 977.79    |
| Diesel                         | GJ      | 4,354.92         | 3,842.59  |
| Liquefied petroleum gas        | GJ      | 1,401.70         | N/A       |
| Purchased electricity and heat | GJ      | 15,083.37        | 15,701.19 |
| <b>Total</b>                   | GJ      | <b>20,869.55</b> | 20,521.57 |
| <b>Intensity</b>               | GJ/sq.m | <b>0.25</b>      | 0.13      |

| Water Consumption |           |             |          |
|-------------------|-----------|-------------|----------|
|                   | Unit      | 2020        | 2019     |
| Domestic water    | tons      | 2,742.00    | 2,492.00 |
| Production water  | tons      | 70,038.00   | N/A      |
| <b>Intensity</b>  | tons/sq.m | <b>0.86</b> | 0.015    |

| Packaging materials |       |             |             |
|---------------------|-------|-------------|-------------|
|                     | Unit  | 2020        | 2019        |
| Metal               | items | 105,719,902 | 95,239,782  |
| Plastic             | items | 350,739,182 | 273,130,752 |
| Paper               | items | 21,024,390  | 12,036,153  |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### ASPECT A3: THE ENVIRONMENT AND NATURE RESOURCES

The Group does not discharge pollutants to water and land directly on a large scale, has little impact on the environment and seldom accesses natural resources directly. However, we still try our best to improve our waste management system, aiming to pursue best practices in environmental protection. We put stress on the impact of the Group's business on environment and natural resources. In addition to complying with environmental laws and regulations and properly protecting natural environment, the Group also integrates the concept of environmental protection into our internal management and daily operations, striving to achieve the goal of environmental sustainability.

With the objective of actively promoting environmental protection and efficient use of resources, the Group continuously monitors whether its business operations have any potential impact on the environment, and promotes green office and operating environments through the four basic principles of reduction, reuse, recycling and alternative use in order to minimize the impact of operations on the environment. In terms of waste management, we have engaged a qualified independent monitoring company to review, monitor and advise on our pollutant discharge in each financial year, so that we can fully understand and assess the impact of our operations on the environment and natural resources and take appropriate measures to protect the environment as soon as possible. We adopt green procurement strategies and the most practical technologies to protect natural resources, where applicable.

The Group raises staff's awareness on environmental issues through education and training and enlist employees' support in improving the Group's performance, promote environmental awareness amongst the customers, business partners and shareholders and support community activities in relation to environmental protection and sustainability and evaluate regularly and monitor past and present business activities impacting upon health, safety and environmental matters. With the integration of policies mentioned in sections "Emissions" and "Use of Resource", the Group strives to minimise the impacts to the environment and natural resources.

### SOCIAL ASPECTS

#### Employment and Labour Practices

##### ASPECT B1: EMPLOYMENT

The Group believes that a key to our success is our ability to recruit, retain, motivate and develop talented and experienced staff members. We endeavour to attract and retain appropriate and suitable personnel to serve our Group. We understand that a professional team is our most valuable resource, and a huge amount of talents is needed for business development. To stay competitive in the industry, we assess the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group. The Group's personnel management system manual sets out our standards for compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

The Group entered into separate labour contracts with each of our employees in accordance with the "Labour Law of the People's Republic of China" and other applicable labour laws of PRC. The package includes basic wages, over-time work allowances, bonuses and retirement benefits. We also provide staff with other benefits, which depend on the Company's performance, like benefits on house rent and transportation fee for employees from other provinces, holiday cash gifts or presents, body examination, trips, departmental activities or competition & recreation, etc.

The Group attaches importance to talents, we committed to providing promotion opportunities for capable people, thus forming a good guidance of selecting employees and institutional environment. We conduct annual review of the performance of our employees for determining the level of bonus, salary adjustment and promotion of our employees. The Group recruits employees from the open market through posting of advertisements online or internal referrals by our other employees. We believe that the above arrangement can maintain good relationship with our employees as we believe that our employees are valuable assets to our Group.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, there were no material non-compliance regarding employment brought against the Group or its employees. As of 31 December 2020, the distribution and turnover rate of staff of the Group's subsidiaries in PRC are set out below:

|                                      |                                  | 2020  |
|--------------------------------------|----------------------------------|-------|
| <b>Number of the Staff</b>           | <b>By gender of the staff</b>    |       |
|                                      | Male                             | 266   |
|                                      | Female                           | 239   |
|                                      | <b>By age group of the staff</b> |       |
|                                      | Below 30                         | 99    |
|                                      | 30 - 50                          | 380   |
|                                      | Above 50                         | 26    |
|                                      | <b>By employment category</b>    |       |
|                                      | Full-time                        | 505   |
|                                      | Part-time/internship             | 0     |
|                                      | <b>By geographical region</b>    |       |
|                                      | Hong Kong                        | 12    |
|                                      | Mainland China                   | 493   |
|                                      | Other regions                    | 0     |
| <b>Total</b>                         | <b>505</b>                       |       |
| <b>Turnover Rate<br/>in the Year</b> | <b>By gender of the staff</b>    |       |
|                                      | Male                             | 16.9% |
|                                      | Female                           | 22.2% |
|                                      | <b>By age group of the staff</b> |       |
|                                      | Below 30                         | 38.4% |
|                                      | 30 - 50                          | 14.5% |
|                                      | Above 50                         | 19.2% |
|                                      | <b>By geographical region</b>    |       |
|                                      | Hong Kong                        | 0.00% |
|                                      | Mainland China                   | 19.9% |
| <b>Total</b>                         | <b>19.4%</b>                     |       |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### ASPECT B2: HEALTH AND SAFETY

The Group attaches importance to the management system of occupational health and work safety. We pledge to earnestly implement and abide by national, provincial and municipal laws and regulations on work safety, including the Law of the People's Republic of China on Work Safety, the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, the Law of the People's Republic of China on Fire Prevention and Control and the Law of the People's Republic of China on Special Equipment Safety. Therefore, we have set up a safety management department, which is specifically responsible for the Company's production safety, which mainly includes:

1. Establishing and improving a safety production accountability system for the Company;
2. Organizing the development and implementation of the Company's production safety education and training programs;
3. Organizing the formulation of the Company's safety production rules and operating procedures;
4. Organizing the inspection of the Company's safety production work to eliminate the potential accidents of production safety in a timely manner;
5. Organizing the formulation and implementation of the Company's emergency rescue plan for production safety accidents, etc., to ensure the effective implementation of efforts regarding the production safety.

We ensure that all personnel in special jobs are certified and have the appropriate knowledge and competence in safety management. The Group regularly organizes safety training courses for its employees and organizes safety production meetings, such as quarterly board meetings and monthly safety meeting studies, to enhance communication and timely response to safety production work, to issue safety work requirements and safety precautions. On the other hand, we organize several emergency drills every year, with regular inspections, to prevent safety risks and continuously improve personnel's emergency awareness and emergency response capabilities.

During the production process, we have established a system for occupational health prevention and control in order to reduce the impact of plant noise on employees. We provide earplugs to our employees for protection. We prioritize the use of low-noise equipment in our workshops and install noise mufflers on noise-generating equipment. We are gradually replacing toxic materials with non-toxic, low-toxic materials and using closed pipes to transport raw materials. We use and maintain the good operation of the ventilation and exhaust devices in our plants, thus the workplace can meet the corresponding hygiene standard requirements. We regularly conduct occupational health training for employees to raise their awareness of occupational health. We are committed to implementing the "four orders and three systems" for the handling of dangerous chemicals, the safety management rules and regulations for major hazards, the safety operation procedures and the system for hidden danger troubleshooting and rectification. We have installed a comprehensive monitoring and alarm system in our hazardous chemical storage tank areas and warehouses to ensure the safety of our employees working in our plants and warehouses by handling flammable and toxic gas leak cases as early as possible. At the same time, the Group attaches importance to and regularly rectifies risk countermeasures such as leak prevention, corrosion prevention, fire prevention, explosion prevention, static electricity prevention, flood prevention and high temperature prevention in the course of operation to uphold the value of safety production.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Regarding insurance, the Group had made social insurance and housing fund contributions for its employees in accordance with the requirements pursuant to the applicable laws and regulations. We have also maintained property insurance which covers our production facilities (including inventory and machinery and equipment), work safety liability insurance which covers work injuries at our production facilities, products liability insurance in relation to our automotive beauty and maintenance products and property insurance which cover our vehicles.

During the Reporting Period, there were no material non-compliance cases noted in relation to health and safety laws and regulations. As of 31 December 2020, the Group's safety performance is as follows:

|  | 2020 |
|--|------|
| Number and rate of work-related fatalities | 0    |
| Lost days due to work injury               | 8    |

### ASPECT B3: DEVELOPMENT AND TRAINING

The Group recognises the importance of providing training for the development of our employees. To ensure the performance quality of our employees and their health and safety at workplace and to familiarise our employees with our quality control systems, except for orientation training for new employees, we also offer relevant in-house training to on-the-job staff. We also encourage our employees in attending external industry-related professional trainings by providing subsidy as established in our employment handbook, to help them exert their potentials and enhance their qualities and performance. The Group has personnel administration department in charge of the establishment and amendment of training plans and systems. All relevant departments have rights and obligations to propose suggestions for improvement and cooperate in implementation, therefore the personnel administration department can give feedbacks and assessment on the implementation of the training in the Company and shoulder the responsibility of supervision and reporting.

#### Practical Measures for Development and Training

- **New employee orientation training**

We assist new hires to adapt to the new working environment as soon as possible, while enhancing their abilities and sense of responsibility. After the training, it will be assessed in the form of a written test to ensure that the personnel enter the working condition smoothly.

- **In-house training**

We use the Company's internal resources to strengthen internal technical communication and exchanges, including the Company's various project, management knowledge or other positive values

- **External training**

We encourage to participate in external public courses, exchange seminars, or invite external lecturers to teach inside to improve the professional knowledge, skills and know-hows that practitioners should have in their own posts

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, a total of 493 people of the Group participated in different types of trainings for a total of 16,960 hours. The detailed staff training data in 2020 are as follows:

|   |                   | 2020   |
|---|-------------------|--------|
| <b>Percentage of Employees Trained</b>      | <b>By gender</b>  |        |
|   | Male              | 99.6%  |
|   | Female            | 99.6%  |
|   | <b>By rank</b>    |        |
|   | Senior management | 71.4%  |
|   | Middle management | 100.0% |
|   | General staff     | 100.0% |
|   | <b>Total</b>      | 99.6%  |
| <b>Average Training Hours (hour/person)</b> | <b>By gender</b>  |        |
|   | Male              | 34.5   |
|   | Female            | 34.0   |
|   | <b>By rank</b>    |        |
|   | Senior management | 28.6   |
|   | Middle management | 30.0   |
|   | General staff     | 34.8   |
|   | <b>Total</b>      | 34.3   |

### ASPECT B4: LABOUR STANDARDS

The Group strictly complies with the "Labour Law of the People's Republic of China" and other applicable labour laws and regulations in the PRC. The Group prohibits the use of child labour and forced labour that violate fundamental human rights and also poses threat to sustainable social and economic development. We never hire minor citizens under the age of 18 in our long-term employee recruitment process. Our new recruits, upon approval of employment, will conduct their entry formalities on a specified date upon receipt of notice, at which time they will be required to check their academic certificates and identity cards. We will never tolerate false information, false academic qualifications, false name or forged documents/certificates during entry process or employment. If found, we will trace and cancel the employee's employment. Employment contracts and other records, documenting all relevant details of the employees (including age) are properly maintained for verification by relevant statutory body upon request.

During the Reporting Period, we did not identify any issue related to child labor or forced labor within the Group.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### OPERATING PRACTICES

#### ASPECT B5: SUPPLY CHAIN MANAGEMENT

The Group works closely with its suppliers who are committed to high quality, environmental, health and safety standards. Our principal suppliers were mainly suppliers of aerosol cans, liquefied petroleum gas and solvents. It is our general policy to maintain a list of approved suppliers in order to avoid over-relying on a single supplier. We have stable business relationships with our suppliers and they are familiar with our demand on quantity and requirements as to the quality of the materials and equipment required by us. Policies and procedures for selection and evaluation of suppliers are established for staff to follow. The selection of our suppliers is based on the following criteria and procedures:

1. ensuring suppliers have obtained all requisite production licences. A Hazardous Chemicals Operation License is also required where it involves the operation of hazardous products;
2. ensuring a supplier's ability to supply a stable source of quality raw materials that meet our stringent standards, its quality management system and whether such system is appropriately accredited and confirm the specifications of the procured products;
3. ensuring a supplier's ability to supply raw materials at competitive prices;
4. conducting initial assessment based upon basic information of the suppliers;
5. testing the suppliers' sample products by technical staff;
6. implementing a product trial period; and
7. conducting site-visit to the suppliers' factories or production plants with a view to ensuring that our suppliers have supply capability.

Further, our technical department will conduct experiment to the procured samples, avoid an increase on unnecessary emissions of pollutants caused by material quality, and environmental and social risks that damage consumers' interests. We conduct annual review and random review of our list of approved suppliers, and these suppliers who cannot satisfy our quality or other requirements will be removed from the list. Thus, we believe there are no significant environmental and social risks for our management decision on supply chain management during the Reporting Period. During the Reporting Period, 112 new suppliers were selected pursuant to our selection and assessment procedure. In 2020, 495 suppliers were from the Mainland China. The table below sets forth the number of suppliers by geographical region during the Reporting Period:

|  |                     | 2020       |
|--|---------------------|------------|
| <b>The number of suppliers (by region)</b> | PRC                 | <b>495</b> |
|  | Japan               | <b>7</b>   |
|  | Hong Kong           | <b>3</b>   |
|  | Koera               | <b>3</b>   |
|  | US                  | <b>3</b>   |
|  | Others <sup>6</sup> | <b>3</b>   |
| <b>Total</b>                               |                     | <b>514</b> |

<sup>6</sup> Including Germany, France and Thailand.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### ASPECT B6: PRODUCT RESPONSIBILITY

During our history of operation, we continuously strive to provide high standard products to our customers, and place strong focus on quality control, which enable us to build up our reputation in the industry. Certain of our subsidiaries of the Group are accredited with the following certifications from Zhongjian Certification Co., Ltd. \* (中鑒認證有限責任公司) in relation to our stringent quality control on production:

- GB/T19001-2016/ISO9001:2015

Standard quality management system certification for our design, production and sale of aerosol products, cleaning agents, wax products and heat insulation coating products;

- GB/T24001-2016/ISO14001:2015

Environmental management system certification for our design, production and sale of aerosol products, cleaning agents, wax products and heat insulation coating products and the related management system;

- ISO9001:2015

Quality management system certification for our design, production and sale of aerosol products, cleaning agents, wax products and skincare, haircare class cosmetics; and

- ISO 22716 (E) Good Manufacturing Practices for Cosmetics (GMP)

Quality management system certification acquired for our design, production and sale of skin-care and hair-care products

We have established a quality assurance team within our quality control and technical supervision department to work together with our technical supervision team of the same department when implementing quality control procedures as below:

#### 1. Quality control on suppliers and raw materials

Raw materials are only sourced from suppliers approved by our procurement department. Our quality and technical supervision personnel check the raw materials on a sampling basis at our laboratory upon receipt of raw materials. Our raw materials and packaging materials have a warranty period, our quality and technical supervision will also check the raw materials and packaging materials semi-annually and annually to identify obsolete and damaged stock.

#### 2. Quality control during production

We carry out quality control on our semi-finished products at various stages along our production lines to ensure their quality complies with applicable industry standards and internal benchmarks. Among others, production of our products conforms to the following national standards, industry standards and corporate standards filed with the market regulatory authorities of the PRC. Part of the national standards and industry standards set out as follow:

- Refrigerant, anti-freeze agent and refrigeration lubricant
  - o GB/T 18826 "1,1,1,2-tetrafluoroethane HFC-134a" for industrial use (GB/T 18826工業用四氟乙烷 HFC-134a)
  - o GB 29743 "Motor Vehicle Engine Coolant" \* (GB 29743 機動車發動機冷卻液)
  - o NB/SH/T 0849 "Compound refrigeration lubricants for airconditioners in vehicles" \* (NB/SH/T 0849 汽車空調合成冷凍機油)

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Glass insect-stain remover
  - o GB/T 23436 "Car window detergents" \* (GB/T 23436 汽車風窗玻璃清洗液)
- Air-freshener
  - o QB 2548 "Air-freshener" (QB 2548 空氣清新氣霧劑)
- Automobile spray paint and brake oil
  - o BB/T 0047 "Aerosol paint" \* (BB/T 0047 氣霧漆)
  - o GB 12981 "Motor vehicle brake oil" \* (GB 12981 機動車輛制動液)

### 3. Inspection before storage

It is our policy to inspect the products to ensure they conform to product specifications prior to storage.

### 4. Testing before delivery

We examine our products before delivery according to the Company's internal standard operating procedures to ensure that customers or consumers receive qualified products.

The Group's strict control over product quality and its persistent quest for excellence have been recognized by the country and the society. Guangzhou Botny Chemical Co., Ltd., our subsidiary, was awarded Top 500 Enterprise of Guangdong Province Manufacturing Industry (廣東省製造業企業500強) in 2020. We will continue to work hard to maintain the due quality and standards.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### *Product Returns, Consumer Feedback and Product Recall*

We have an established policy for handling product complaints. We have a dedicated team of customer service personnel under our sales and marketing department which handle customer complaints. Our customer service personnel together with our quality assurance team under our quality and technical supervision department seek to identify any quality related issues. We may refund or replace the defective products at our own costs, as the case may be. Any refund is offset against the accounts receivable of the relevant customer as recognised in our accounts. Product recall and replacement is subject to the prior approval of our responsible regional sales team. The product warranty period is usually three years.

During the Reporting Period, there are no disputes between our Group and our customers in respect of the quality of products produced by us and there were no cases of non-compliance against laws and regulations related to products responsibilities. We don't have any products sold or in ship that are subject to return for safety and health reasons.

### *Business ethics*

The Group understands that intellectual property can help promote innovation and technological development and is important to the progress of the industry and society. Therefore, we respect intellectual property rights to promote the positive development of society. We have formulated a number of practices and systems, including internal patent management system, trademark management system and copyright management methods. For infringements, we have established an early warning mechanism for intellectual property rights. Subordinates should collect and report information related to intellectual property rights according to the principle of "objective, accurate and timely". The status of the work on intellectual property rights should be reported in writing to the Company's key leaders at the end of each year, so that the management can understand the situation and develop relevant policies as early as possible.

In addition, we value the privacy and business security of our partners, employees and consumers. According to our technical and commercial confidentiality management system, trade secrets, employee files and personal data are only copied and transmitted by employees at or above the manager level and specially designated authorized persons. Cooperation, agency, transaction contract or agreement involving the Company's trade secrets shall be subject to a confidentiality clause, expressing the trade secrets involved in the contract and the restrictions on confidential behavior. In the case of any leaks, the Group has clear guidelines for warning, fines, dismisses or even criminally liable persons for misconduct based on the seriousness of the consequences. Over the years, we have been convinced that proper handling of trade secrets will eliminate external false information, enhance investors' confidence in the Group's operations, and gain more trust and respect from our customers and the market.

### ASPECT B7: ANTI-CORRUPTION

To ensure the workplace operates in a fair and transparent manner, the Group attaches importance to the asset management, fees related to reimbursement, work and others are subject to approval of various parties to prevent abusive reporting. We also conduct strict check in respect of borrowing, at the same time, cash income is required to be deposited on banks immediately for recording, accounts will be checked by professionals regularly to avoid embezzlement and unauthorized borrowing. The Group has formulated whistleblowing policy to avoid suspected corruption and provided channels such as by letter, fax, meeting, email or phone call for employees to report suspected corruption. If there is any suspected case related to corruption, employees are encouraged to report it through the mentioned channels. Employees can make complaints to the personnel administration department seeking for solutions if they face with unsolvable questions within their own departments. Anyone who report and prosecute indiscipline and other cases to the head of department or personnel administration department will be given rewards (as the case may be). All these practical actions enhance the sense of belonging and fair play among our various stakeholders. During the Reporting Period, 150 employees and two directors have received an one-hour anti-corruption training, making the concept of anti-corruption deep into the whole company.

The Group has been in strict compliance with law and regulation related to anti-corruption such as "Contract Law of the People's Republic of China" and "Law of People's Republic of China Against Unfair Competition" and others. During the Reporting Period, there was no any legal case regarding corrupt practices brought against the Group or its employees.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### COMMUNITY

#### ASPECT B8: COMMUNITY INVESTMENT

As a socially responsible company, the Group is committed to understanding the needs of the communities in which we operate. The Group strives to develop long-term relationship with our stakeholders and seek to make contributions to programmes that have a positive impact on community development. The Group has always been philanthropic and strives to be a good corporate citizen, with an aim to create a harmonious and well-off society. The Group encourages employees to participate in community service, supports those in need through donations and attending charity events, and also hopes to foster the new generation of young people's positive thinking, such as the sense of responsibility to society.

As a socially responsible company under the background of novel coronavirus raging, the Group is committed to understanding the needs of the communities in which we operate to combat the epidemic. The Group has made a positive impact on the prevention and control of the disease in our communities and is also looking forward to making contributions during difficult times in society. As per the requirements of the Central Leading Group on Responding to the Novel Coronavirus Pneumonia Outbreak and the Joint Prevention and Control Mechanism of the State Council, the Group made outstanding contributions in ensuring the supply of disinfection products. The Group spares no effort to organize all employees to step up production and guarantee the supply of medical supplies, obey the scheduling arrangements of the medical supplies guarantee team of the Joint Prevention and Control Mechanism of the State Council, and continue to supply disinfection supplies to surrounding provinces to combat the epidemic. After painstaking efforts, the national epidemic prevention and control situation has finally shown positive changes, and important phased results have been achieved, initially achieving the goal of stabilizing the situation and turning the tide. We are honored to receive a letter of appreciation from the State Council, which is a commendation and recognition from the State. We promise that we will continue to do our best to repay the country and the people in the future.

#### 国务院应对新型冠状病毒肺炎联防联控机制(医疗物资保障组)

##### 感谢信

广州欧亚气雾剂与日化用品制造有限公司:

新冠肺炎疫情发生以来,在以习近平同志为核心的党中央坚强领导下,按照中央应对疫情工作领导小组、国务院联防联控机制要求,全国人民团结一心,各条战线紧急动员,众志成城抗击疫情。经过艰苦努力,全国特别是湖北和武汉疫情防控形势出现积极向好变化,取得阶段性重要成果,初步实现了稳定局势、扭转局面的目标。

在消杀用品保障供应过程中,你公司识大体、顾大局,组织全体员工加班加点、争分夺秒,不辞辛劳、夜以继日地奋战在医疗物资生产保障一线,自觉服从国务院应对新型冠状病毒肺炎联防联控机制医疗物资保障组的调度安排,积极配合我部做好消杀用品保供工作,持续向周边省份供应消杀用品,为疫情防控作出了突出贡献。

在此,谨向你公司表示衷心的感谢!希望你公司

再接再厉、善作善成,为争取抗击新冠肺炎疫情全面胜利再创新的佳绩!

国务院应对新型冠状病毒肺炎联防联控机制医疗物资保障组  
2020年3月21日

抄送:广东省人民政府。

The Group provides charitable donations and practical support for anti-epidemic materials to trade unions, charitable associations, police stations, hospitals and school-running organizations in various regions. During the Reporting Period, the Group has contributed approximately RMB 5.5 million to support the sustainable development of the community. Details of community investments are as follows:

|                                   | Unit | 2020      |
|-----------------------------------|------|-----------|
| Total donation amount (Hong Kong) | HK\$ | 134,000   |
| Total donation amount (PRC)       | RMB  | 5,464,460 |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### HONG KONG STOCK EXCHANGE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING INDEX

| Subject areas/aspects/Key Performance Indicators (KPIs) |  | Section/Statement   |
|---|--|---|
| <b>Subject Area A - Environmental</b>                   |  |   |
| <b>Aspect A1: Emissions</b>                             |  |   |
| General Disclosure                                      | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous wastes | Emissions   |
| KPI A1.1  | The types of emissions and respective emissions data   | Emissions   |
| KPI A1.2  | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)   | Emissions   |
| KPI A1.3  | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)  | Emissions   |
| KPI A1.4  | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)  | Emissions   |
| KPI A1.5  | Description of measures to mitigate emissions and results achieved   | Emissions   |
| KPI A1.6  | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved  | Emissions   |
| <b>Aspect A2: Use of Resources</b>                      |  |   |
| General Disclosure                                      | Policies on the efficient use of resources, including energy, water and other raw materials  | Use of Resources  |
| KPI A2.1  | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per meal)   | Use of Resources  |
| KPI A2.2  | Water consumption in total and intensity (e.g. per unit of production volume, per facility)  | Use of Resources  |
| KPI A2.3  | Description of energy use efficiency initiatives and results achieved  | Use of Resources  |
| KPI A2.4  | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved   | Use of Resources  |
| KPI A2.5  | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced  | Use of Resources  |
| <b>Aspect A3: Environment and Natural Resources</b>     |  |   |
| General Disclosure                                      | Policies on minimising the issuer's significant impact on the environment and natural resources  | Emissions and Use of Resources                                    |
| KPI A3.1  | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them   | Emissions, Use of Resources and Environment and Natural Resources |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Subject areas/aspects/Key Performance Indicators (KPIs) |   | Section/Statement        |
|---|---|--------------------------|
| <b>Subject Area B – Social</b>                          |   |                          |
| <b>Employment and Labour Practices</b>                  |   |                          |
| Aspect B1: Employment                                   |   |                          |
| General Disclosure                                      | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | Employment               |
| KPI B1.1  | Total workforce by gender, employment type, age group and geographical region.  | Employment               |
| KPI B1.2  | Employee turnover rate by gender, age group and geographical region.  | Employment               |
| Aspect B2: Health and Safety                            |   |                          |
| General Disclosure                                      | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.   | Health and Safety        |
| KPI B2.1  | Number and rate of work-related fatalities.   | Health and Safety        |
| KPI B2.2  | Lost days due to work injury.   | Health and Safety        |
| KPI B2.3  | Description of occupational health and safety measures adopted, how they are implemented and monitored.   | Health and Safety        |
| Aspect B3: Development and Training                     |   |                          |
| General Disclosure                                      | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.<br>Note: Training refers to vocational training. It may include internal and external courses paid by the employer.   | Development and Training |
| KPI B3.1  | The percentage of employees trained by gender and employee category (e.g. senior management, middle management).  | Development and Training |
| KPI B3.2  | The average training hours completed per employee by gender and employee category.  | Development and Training |
| Aspect B4: Labour Standards                             |   |                          |
| General Disclosure                                      | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.  | Labour Standards         |
| KPI B4.1  | Description of measures to review employment practices to avoid child and forced labour.  | Labour Standards         |
| KPI B4.2  | Description of steps taken to eliminate such practices when discovered.   | Labour Standards         |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Subject areas/aspects/Key Performance Indicators (KPIs) |   | Section/Statement       |
|---|---|-------------------------|
| <b>Subject Area B – Social</b>                          |   |                         |
| <b>Operating Practices</b>                              |   |                         |
| Aspect B5: Supply Chain Management                      |   |                         |
| General Disclosure                                      | Policies on managing environmental and social risks of the supply chain.  | Supply Chain Management |
| KPI B5.1  | Number of suppliers by geographical region.   | Supply Chain Management |
| KPI B5.2  | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.   | Supply Chain Management |
| Aspect B6: Product Responsibility                       |   |                         |
| General Disclosure                                      | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress | Service Quality         |
| KPI B6.1  | Percentage of total products sold or shipped subject to recalls for safety and health reasons   | Service Quality         |
| KPI B6.2  | Number of products and service related complaints received and how they are dealt with  | Service Quality         |
| KPI B6.3  | Description of practices relating to observing and protecting intellectual property rights  | Business Ethics         |
| KPI B6.4  | Description of quality assurance process and recall procedures  | Service Quality         |
| KPI B6.5  | Description of consumer data protection and privacy policies, how they are implemented and monitored  | Business Ethics         |
| Aspect B7: Anti-corruption                              |   |                         |
| General Disclosure                                      | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering   | Anti-corruption         |
| KPI B7.1  | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases   | No related case         |
| KPI B7.2  | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored   | Anti-corruption         |
| <b>Community</b>  |   |                         |
| Aspect B8: Community Investment                         |   |                         |
| General Disclosure                                      | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests   | Community Investment    |
| KPI B8.1  | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)  | Community Investment    |
| KPI B8.2  | Resources contributed (e.g. money or time) to the focus area  | Community Investment    |

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographies of Directors and senior management are set out below:

### EXECUTIVE DIRECTORS

**Ms. Ko Sau Mee (高秀媚, “Mrs. Lin”)**, aged 54, was appointed as an executive Director on 4 May 2018. Mrs. Lin is also the chairlady of the Board and the chief executive of the Company. Mrs. Lin joined the Group in August 2000. Mrs. Lin is responsible for formulating business strategies and planning the business development of the Group. In August 2000, Mrs. Lin together with Mr. Lin Wan Tsang established Guangzhou Botny Chemical Co., Ltd.\* (廣州保賜利化工有限公司, “Guangzhou Botny”) to engage in the design, development, manufacture and sale of aerosol and non-aerosol products mainly for automotive beauty and maintenance products and has served as a director of Guangzhou Botny since then. Mrs. Lin was an executive director of China Aluminum Cans Holdings Limited (“China Aluminum Cans”, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange, stock code: 6898) during the period from March 2013 to May 2019 and was responsible for formulating corporate strategies and overseeing the overall business of China Aluminum Cans and its subsidiaries. Mrs. Lin resigned as an executive director of China Aluminum Cans with effect from 29 May 2019.

Mrs. Lin has been a director of Guangzhou Botny since August 2000, a supervisor of 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”) since January 2018, a director of Botny Hongkong Co., Limited, China Medical Beauty Bio-Technology Company Limited, Topspan Holdings Limited and Super Sight International Investment Limited since May 2019, a director of Precious Dragon Group Limited and Botny Marine Limited since November 2019 and December 2019 respectively, a director of Precious Dragon Technology Thai Limited since January 2020 and a director of Botny Corporation Limited since March 2021, each a subsidiary of the Company.

Mrs. Lin is the mother of Ms. Ling Hing Lei and Mr. Lin Hing Lung, each an executive Director, and the spouse of Mr. Lin Wan Tsang, the controlling Shareholder.

**Ms. Lin Hing Lei (連馨莉, “Ms. Flora Lin”)**, aged 30, was appointed as an executive Director on 4 May 2018 and is also the head of procurement department of the Group, responsible for overseeing the procurement, administration and human resources management of the Group. Ms. Flora Lin joined the Group in August 2012. Ms. Flora Lin has over eight years of experience in the content filling of aerosol cans and non-aerosol cans and the design, development, manufacture and sale of aerosol and non-aerosol products. Ms. Flora Lin obtained her bachelor’s degree in Arts (Business and Management with proficiency in Mandarin Chinese) from the University of Exeter in the United Kingdom in July 2012. Ms. Flora Lin was appointed as a council member of the council committee of Guangdong Cosmetics Association\* (廣東省化妝品學會) for the period from December 2016 and November 2020. Ms. Flora Lin, is the sole shareholder and a director of Po Lee Capital Limited and Po Lee Finance Limited and a representative of Po Lee Securities Limited.

Ms. Flora Lin has become a director of Guangzhou Botny since November 2013, a director and legal representative of Guangzhou Shentian Woye Trading Company Limited\* (廣州深田沃業貿易有限公司) since May 2014, a director of Euro Asia Aerosol since January 2018, and a director of Botny Corporation Limited during the period from July 2019 to October 2019 and a director of Precious Dragon Technology Thai Limited since January 2020.

Ms. Flora Lin is the daughter of Mrs. Lin, an executive Director and the chairlady of the Board and Mr. Lin Wan Tsang, the controlling Shareholder and the sister of Mr. Lin Hing Lung, an executive Director.

\* For identification purpose only

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Lin Hing Lung (連興隆, “Mr. Alex Lin”)**, aged 27, was appointed as an executive Director on 4 May 2018 and is also the head of sales and marketing department of the Group, responsible for the sales and marketing for the PRC and overseas markets of the Group. Mr. Alex Lin joined the Group in August 2014. Mr. Alex Lin has over six years of experience in the content filling of aerosol cans and non-aerosol cans, and the design, development, manufacture and sale of aerosol and non-aerosol products. Mr. Alex Lin had been an executive director from March 2016 to May 2019 and deputy managing director of China Aluminum Cans and was responsible for formulating business strategies and planning the business development of China Aluminum Cans and its subsidiaries. Mr. Alex Lin obtained his bachelor’s degree in Arts (Marketing and Management) from the University of Newcastle in the United Kingdom in August 2014. Mr. Alex Lin has been the director of the Aerosol Committee of China Packaging Federation\* (中國包裝聯合會氣霧劑專業委員會) since October 2014, the vice president of Guangdong Chamber of Automotive Supplies\* (廣東省汽車用品商會) since December 2015 and the vice president of Guangdong Association for Standardisation\* (廣東省標準化協會) since December 2017. Since September 2016, Mr. Alex Lin has been a director of Hero Entertainment Co. Limited which is in the entertainment industry principally engaged in event management.

Mr. Alex Lin has been a director of Euro Asia Japan Company Limited since January 2016, a director of Guangzhou Botny since September 2018, a director of Botny Corporation Limited since March 2019, a director of Botny India Chemical Private Limited since November 2019 and a director of Precious Dragon Technology Thai Limited since January 2020.

Mr. Alex Lin is the son of Mrs. Lin, an executive Director and the chairlady of the Board, and Mr. Lin Wan Tsang, the controlling Shareholder and the brother of Ms. Flora Lin, an executive Director.

**Mr. Yang Xiaoye (楊小業, “Mr. Yang”)**, aged 52, was appointed as an executive Director on 2 May 2019 and is also the head of safety department and quality control and technical supervision department of the Group, and is responsible for overseeing the quality checking and research and development of the Group. Mr. Yang has over 19 years of experience in quality management and technical supervision in aerosol manufacturing and filling.

Mr. Yang joined the Group in September 2000 as the manager of quality control and technical supervision department of the Group and was subsequently promoted to be the vice general manager and head of safety department and quality control and technical supervision department of our Group in February 2015 and January 2018, respectively. Mr. Yang has been the supervisor of Guangzhou Botny since September 2018.

Mr. Yang obtained his bachelor’s degree in Chemical Engineering from Hefei University of Technology\* (合肥工業大學) in July 1990. Prior to joining the Group, Mr. Yang worked as an assistant engineer in State-owned Factory No. 804\* (國營第804廠) operated by Norinco (中國兵器工業總公司, which is currently known as 中國北方工業公司) from October 1991 to September 1997 and his last position was engineer. From September 1997 to September 2000, he joined Chaoyang Ouya Aluminum Cans Company Limited\* (潮陽市歐亞鋁罐工業有限公司), which is principally engaged in manufacture of aluminum cans, as a quality controller. Mr. Yang has been a certified safety engineer of the Ministry of Human Resources and Social Security of the People’s Republic of China\* (中華人民共和國人力資源和社會保障部) and the Ministry of Emergency Management of the People’s Republic of China\* (中華人民共和國應急管理部) since October 2018.

\* For identification purpose only

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Lee Yiu Pui (李耀培, “Mr. Lee”)**, aged 68, was appointed as an independent non-executive Director on 27 May 2019 and is responsible for providing independent advice to our Board. Mr. Lee has over 33 years of experience in corporate management.

Mr. Lee obtained his diploma in Business Management jointly organised by The Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) and the Hong Kong Management Association in September 1991. Mr. Lee obtained his master’s degree of Engineering Management from the University of Technology in Sydney in October 2003 and his doctor’s degree of Philosophy in Business Administration from the International American University in December 2010.

Mr. Lee joined Guardforce Limited as a manager and was responsible for management of workshops and garages from August 1986 to August 1996 and his last position was senior manager. Mr. Lee worked as a director and general manager of Challenger Auto Services Limited and was responsible for management of workshops and garages from November 1996 to June 2008. From April 2008 to March 2013, Mr. Lee was appointed as the chairman of the Automobile Training Board at Vocational Training Council, Hong Kong. Mr. Lee worked as a management leader in HKS Auto Holdings Company Limited which was principally engaged in operation of fast repairing workshops from October 2008 to September 2015 and the convenor of Vehicle Maintenance Technical Advisory Committee of Electrical and Mechanical Services Limited from April 2012 to March 2018. Mr. Lee has been the chairman of The Institute of The Motor Industry Hong Kong since August 1999, the managing director of Cartel Motors Limited since October 2015 and the chairman of the Automotive Industry Training Advisory Committee under the Education Bureau in Hong Kong since January 2017.

**Mr. Poon Tak Ching (潘德政, “Mr. Poon”)**, aged 39, was appointed as an independent non-executive Director 27 May 2019 and is responsible for providing independent advice to our Board. Mr. Poon has over 16 years of experience in the field of banking, accounting and corporate finance.

Mr. Poon obtained his Bachelor’s degree in Business Administration from the Chinese University of Hong Kong in December 2004. He was admitted as a member of the Association of Chartered Certified Accountants in June 2016. Mr. Poon worked in The Hongkong and Shanghai Banking Corporation Limited from July 2004 to July 2016 and his last position was senior vice president in commercial banking department. Mr. Poon was appointed as a director of CMB Corporate Services Limited which is principally engaged in provision of corporate services in April 2017. He joined CAS Financial Holdings Limited (formerly known as Ottoman Holdings Limited) which is licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities as a responsible officer since December 2016.

**Mr. Pang Cheung Wai, Thomas (彭長緯, “Mr. Pang”)**, GBS, JP, aged 67, was appointed as an independent non-executive Director on 27 May 2019 and is responsible for providing independent advice to our Board. Mr. Pang has 20 years of experience in public administration.

Mr. Pang completed a training programme in relation to Enterprise Training National Professional Certification\* (企業培訓師國家職業資格認證) organised by The Open University of Guangdong\* (廣東開放大學) (formerly known as Guangdong Radio and Television University\* (廣東廣播電視大學)) in January 2005.

Mr. Pang is currently a panel member of Municipal Services Appeals Board of Administration Wing, Chief Secretary for Administration’s Office of Hong Kong. Mr. Pang was awarded the Bronze Bauhinia Star, the Silver Bauhinia Star and the Gold Bauhinia Star in July 2008, July 2015 and October 2020 respectively.

\* For identification purpose only

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Mr. Zhang Zhiming (張志明, “Mr. Zhang”)**, aged 42, is the head of production department of the Group. Mr. Zhang is responsible for the overall management of the production of our Group. He joined the Group in February 2002 as a leader of the colour mixing team. Subsequently, Mr. Zhang was further promoted to be the manager and head of production department of the Group in January 2015 and February 2018, respectively.

Mr. Zhang obtained the safety production training certificate in respect of manufacturing dangerous chemical products in June 2018. He obtained his bachelor’s degree in Business Management in Beijing Institute of Technology\* (北京理工大學) in July 2019.

**Ms. Liu Hua (劉花, “Ms. Liu”)**, aged 41, is the senior sales manager of the Group. Ms. Liu joined the Group in August 2004 as a customer service officer and was subsequently promoted to be the supervisor, manager and senior sales manager of the Group in February 2006, January 2009 and September 2016, respectively. As the senior sales manager, Ms. Liu is responsible for the overall management of the sales and marketing of the PRC market of the Group as well as liaising with clients in order to increase service standards. Her specific duties include, but not limited to, the management involved before and after sale as well as the administrative affairs of the domestic sales department. Ms. Liu organises training sessions for sales assistants and regulates the issuance and implementation of sales policies. Ms. Liu also supervises regional managers in achieving their sales objectives, and integrates feedback and information from the market such that existing mechanisms and service standards may be enhanced.

Ms. Liu completed a pre-school education programme from Guangzhou Xinfu High Level Education School\* (廣州市信孚高等師範學校) in July 1999.

**Ms. Zeng Caixia (曾彩霞, “Ms. Zeng”)**, aged 35, is the finance manager of the Group. Ms. Zeng joined the Group in April 2008 as an accountant during which she has accumulated experiences in handling the Group’s financial matters such as management of account receivables and payables and cost accounting. Ms. Zeng was subsequently promoted to be the finance manager in September 2017. As the finance manager, Ms. Zeng is responsible for the overall management of the finance and accounting, taxation and treasury of the Group and ensuring that the financial department of the Company functions properly. Her specific duties include, but not limited to, reviewing the salaries of employees and organising training sessions for staff. She is responsible for the department’s strategic planning and budgeting. Furthermore, Ms. Zeng reviews the Company’s financial accounts, reports on the Company’s tax payable, and assists the Company in applying for subsidies from the government.

Ms. Zeng obtained her college diploma in accounting from the Open University of China (國家開放大學) (formerly known as the China Central Radio and TV University (中央廣播電視大學) in January 2008. Ms. Zeng obtained her bachelor’s degree in respect of accountancy from Guangdong University of Finance & Economics\* (廣東財經大學) on a part-time basis in January 2019. Ms. Zeng obtained her qualification as tax accountant\* (稅務會計師) from the Centre of Education and Training of the Ministry of Human Resources and Social Security of the People’s Republic of China\* (中華人民共和國人力資源和社會保障部教育培訓中心) in January 2019.

\* For identification purpose only

# DIRECTORS' REPORT

The Directors are pleased to present to the Shareholders this annual report and the audited consolidated financial statements for the Reporting Period.

## GROUP REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 4 May 2018. Pursuant to a reorganisation scheme to rationalize the structure of the Group in preparation for the listing of the Shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 15 May 2019. On 21 June 2019, the Shares were listed on the Main Board of the Stock Exchange (the "Listing Date").

During the Reporting Period, there was no group reorganisation.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 1 to the financial statements.

## BUSINESS REVIEW

The business review of the Group for the Reporting Period is set out in the sections headed "Chairlady's Statement", "Management Discussion and Analysis", "Corporate Governance Report", "Environmental, Social and Governance Report" and "Financial Summary" on pages 3 to 45 and pages 142 of this annual report.

## RESULTS AND DIVIDENDS

The results of the Group for the Reporting Period and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 66 to 141.

The Board has resolved to recommend a final dividend of HK2.45 cents per Share for the Reporting Period (2019: HK2.45 cents per Share) which will be subject to the approval of the Shareholders at the forthcoming AGM. The final dividend will be payable on or before 30 July 2021. During the Reporting Period, an interim dividend of HK2.00 cents per Share was declared.

## 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.

## FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on pages 142 of this annual report.

## DIRECTORS' REPORT

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

### SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in note 27 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

### RESERVES

The movements in the reserves of the Group during the Reporting Period are set out in the consolidated statement of changes in equity of this annual report.

### CHARITABLE DONATIONS

Charitable donations made by the Company during the Reporting Period amounted to approximately HK\$134,000 (2019: approximately HK\$1.4 million).

### DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserve available for distribution to owners was approximately HK\$343.4 million (2019: approximately HK\$303.1 million). This includes the Company's share premium and is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

## DIRECTORS' REPORT

### KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the Reporting Period under review.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner.

Our major suppliers are generally manufacturers for the production of aerosol cans, solvents, aerosol valves and liquefied petroleum gas, and had business relationship with the Group for over eight years on average. Our largest supplier is headquartered in Guangdong province, China and operated as aerosol cans manufacturing business. The credit period from the major suppliers is 30 to 90 days. The payables were usually settled within the credit period. Details of the trade and bills payables of the Group as at 31 December 2020 are set out in note 22 to the financial statements. Up to the date of this report, approximately 52.4% of the trade and bills payable to the major suppliers has been settled.

The Company's principal activities are manufacturing of aerosol products used in the automotive care products and personal care products, which rely on, among other things, sufficient supply of the aerosol cans, solvents, aerosol valves and liquefied petroleum gas. The Company is subject to price fluctuation in raw materials prices and could face shortage in supply of raw materials. To mitigate the risk, the Company has estimated certain periods of the material usages and maintained the safety raw material inventory level. The Company has also developed business relationships with more suppliers for specific raw materials in order to diversify the risk of relying on single supplier.

During the Reporting Period, the Group did not have any significant disputes with our major suppliers.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customers' feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

Our major customers include consumer brand manufacturers of automotive care products and personal care products. The years of business relationship with the Group ranged from 1 to 11 years and the credit terms granted to the major customers ranged from 0 to 120 days. Details of the trade and bills receivables of the Group as at 31 December 2020 are set out in note 19 to the financial statements. Up to the date of this report, approximately 53.2% of the trade and bills receivables from the major customers has been settled.

Most of the Group's revenue was generated from customers in the PRC and Japan. Should there be any material adverse change in the political, economic, legal or social conditions in the PRC and Japan and the Group is unable to divert sales to other markets outside of the PRC and Japan, the turnover, profitability and prospects may be adversely affected. In order to mitigate such risk, the Group will put efforts to expand overseas market and increase the proportion of overseas sales. During the year ended 31 December 2020, we have export sales to America and Asia countries other than PRC and Japan, etc. The Group will also continue to review competitive edges of the Group in the industry and market trend.

During the Reporting Period, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. We did not have any material dispute with our customers.

## DIRECTORS' REPORT

### MAJOR SUPPLIERS AND CUSTOMERS

For the Reporting Period, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 6.7% (2019: approximately 6.6%) and 28.6% (2019: approximately 27.6%) of the Group's total purchases respectively.

For the Reporting Period, sales to the single largest customer of the Group and the five largest customers of the Group in aggregate accounted for approximately 9.7% (2019: approximately 4.5%) and 23.7% (2019: approximately 15.6%) of the Group's total turnover respectively.

At all-time during the Reporting Period, none of the Directors or any of their close associates or any Shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had an interest in any of the five largest suppliers or customers.

### DIRECTORS

The Directors in office during the Reporting Period and up to the date of this report are:

#### 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

In accordance with article 108(a) and article 108(b) of the Articles, every Director shall retire from office once every three years and for this purpose, at each AGM one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest one-third (1/3) but not less than one-third (1/3) shall retire from office by rotation. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Articles, a retiring Director shall be eligible for re-election at the meeting at which he retires. For avoidance of doubt, each Director shall retire at least once every three (3) years.

Ms. Ko Sau Mee, Ms. Ling Hing Lei and Mr. Lin Hing Lung will retire in accordance with article 108(a) of the Articles at the forthcoming AGM and being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 46 to 49 of this annual report.

## DIRECTORS' REPORT

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, 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 Securities and Futures Ordinance (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 as set out in Appendix 10 to the Listing Rules are as follows:

#### (i) Long positions in the Shares and underlying Shares of the shares options granted under the Pre-IPO Share Option Scheme of the Company

| Name of Directors           | Number of Ordinary Shares |                         |                                       | Interests in underlying Shares | Total       | Approximate percentage of the issued Shares (Note 2) |
|-----------------------------|---------------------------|-------------------------|---------------------------------------|--------------------------------|-------------|--|
|                             | Beneficial owner          | Interest of family      | Interests in a controlled corporation | Share options (Note 1)         |             |  |
| Ms. Ko Sau Mee ("Mrs. Lin") | -                         | 107,788,500<br>(Note 3) | 67,000,000<br>(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 (the "Pre-IPO Share Option Scheme") which was adopted on 12 April 2019. Details of the Pre-IPO Share Option Scheme have been disclosed in the section headed "Pre-IPO Share Option Scheme".
- (2) These percentages have been compiled based on the total number of issued Shares as at 31 December 2020 (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.

## DIRECTORS' REPORT

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 31 December 2020, 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.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, 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:

#### (i) Long Positions in the Shares

| Name of shareholders | Capacity/Nature of interests          | Number of Shares held | Approximate percentage of issued Shares<br>(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 31 December 2020 (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 31 December 2020, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, 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.

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transactions, arrangements or contracts of significance to which the Company, its parent company, its subsidiaries or fellow subsidiaries were a party and in which a Director or his connected entities had a material interest, either directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period.

## DIRECTORS' REPORT

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of independence, and the Company considers that each of them to be independent and has met the guidelines set out in Rule 3.13 of the Listing Rules.

### INDEMNITY OF DIRECTORS

The Articles provide that the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses. The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors.

### DIRECTORS' INTEREST IN A COMPETING BUSINESS

Each of Mr. Lin Wan Tsang and Wellmass International Limited (together the "Controlling Shareholders"), had entered into a deed of non-competition dated 27 May 2019 (the "Deed of Non-Competition") in favour of the Company (for itself and as trustee for each of other members of the Group), pursuant to which each of the Controlling Shareholders shall not engage in any business which is or may be in competition with the business of the Group from to time so long as it remains as a Controlling Shareholder. For details of the Deed of Non-Competition, please refer to the Company's prospectus dated 3 June 2019.

Each of the Controlling Shareholders has made an annual declaration by providing a written confirmation (altogether the "Confirmations") to the Company confirming that he/it has fully complied with the non-competition undertakings pursuant to the Deed of Non-Competition (the "Non-Competition Undertakings") and did not conduct any competing business with the Group for the year ended 31 December 2020.

Upon receiving the Confirmations, the independent non-executive Directors (the "INEDs") have reviewed the same as part of the annual review process. In determining whether the Controlling Shareholders have fully complied with the Non-Competition Undertakings for the year ended 31 December 2020, the INEDs noted that (i) each of the Controlling Shareholders has declared that he/it has fully complied with the Non-Competition Undertakings for the year ended 31 December 2020; (ii) no competing business was reported by the Controlling Shareholders for the year ended 31 December 2020; and (iii) there was no particular situation rendering the full compliance of the Non-Competition Undertakings being questionable. In view of the above, the INEDs are satisfied that the Controlling Shareholders have fully complied with the Non-Competition Undertakings for the year ended 31 December 2020.

As at 31 December 2020, the Company was not aware of any other matters regarding the compliance of the Non-Competition Undertakings and there has not been any change in the terms of the Deed of Non-Competition since the listing of the Shares on the Stock Exchange.

As at 31 December 2020, the Directors were not aware of any business or interest of the Directors and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and "Pre-IPO Share Option Scheme" below, at no time during the Reporting Period were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective close associates nor was the Company, its parent company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors, or their respective close associates to acquire such rights in any other body corporate.

## DIRECTORS' REPORT

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding the Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the Model Code throughout the Reporting Period.

### EQUITY-LINKED AGREEMENTS

Details of equity-linked agreements entered during the Reporting Period or subsisting at the end of the Reporting Period are set out below:

### PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

The Company conditionally adopted the Pre-IPO Share Option Scheme on 12 April 2019, which became effective on the Listing Date and options in respect of 7,765,000 Shares under the Pre-IPO Share Option Scheme had been granted on 17 May 2019. The Company also conditionally adopted a share option scheme on 12 April 2019 (the "Share Option Scheme"), which became effective on the Listing Date and no option had been granted by the Company up to the date of this report.

### PRE-IPO SHARE OPTION SCHEME

The Company adopted the Pre-IPO Share Option Scheme on 12 April 2019 so as to recognize and motivate the contributions that certain executive and non-executive Directors, members of the senior management and other employees (the "Grantees") have made or may make to our Group.

Initially, options to subscribe for an aggregate of 7,765,000 Shares had been granted to the Grantees. The total number of securities available for issue under the Pre-IPO Share Option Scheme is 7,380,000 Shares, representing approximately 3.16% of the total issued Shares as at the date of this annual report. No further options will be granted by the Company pursuant to the Pre-IPO Share Option Scheme. The exercise price per Share is HK\$2.17, which is primarily determined with reference to the fair value of the Shares as at 31 December 2018 based on an independent valuation performed by an independent valuer appointed by the Company. All options granted under the Pre-IPO Share Option Scheme on 17 May 2019 may be exercised in the following manner:

| Exercise Period  | Maximum percentage of options exercisable                          |
|--|--|
| Commencing on the first anniversary date of the Listing Date upon certain fulfillment of certain conditions and ending on the 10th anniversary date of the offer date (the "Expiration Date") (both dates inclusive) | 50% of the total number of options granted to each of the Grantees |
| Commencing on the second anniversary date of the Listing Date upon certain fulfillment of certain conditions and ending on the Expiration Date (both dates inclusive)  | 50% of the total number of options granted to each of the Grantees |

An option may be exercised in accordance with the terms of the Pre-IPO Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the Listing Date subject to the provisions of early termination thereof. Each of the Grantees is required to pay HK\$1.00 on acceptance of the options granted under the Pre-IPO Share Option Scheme.

## DIRECTORS' REPORT

Set out below is further information on the outstanding share options granted under the Pre-IPO Share Option Scheme as at 31 December 2020:

| Names of the Grantees | Number of share options                |                              |                                   |                             |                                   | Outstanding<br>as at<br>31 December<br>2020 | Exercise<br>price<br>per Share<br>HK\$ |
|-----------------------|--|------------------------------|-----------------------------------|-----------------------------|-----------------------------------|---|--|
|                       | Outstanding<br>as at<br>1 January 2020 | Granted during<br>the period | Exercised<br>during<br>the period | Lapsed during<br>the period | Cancelled<br>during<br>the period |   |  |
| <b>Directors</b>      |  |                              |                                   |                             |                                   |   |  |
| Ms. Ko Sau Mee        | 500,000                                | -                            | -                                 | -                           | -                                 | 500,000                                     | 2.17                                   |
| Ms. Lin Hing Lei      | 500,000                                | -                            | -                                 | -                           | -                                 | 500,000                                     | 2.17                                   |
| Mr. Lin Hing Lung     | 500,000                                | -                            | -                                 | -                           | -                                 | 500,000                                     | 2.17                                   |
| Mr. Yang Xiaoye       | 300,000                                | -                            | -                                 | -                           | -                                 | 300,000                                     | 2.17                                   |
| <b>Others</b>         |  |                              |                                   |                             |                                   |   |  |
| Employees             | 5,815,000                              | -                            | -                                 | 135,000                     | -                                 | 5,680,000                                   | 2.17                                   |
| <b>Total</b>          | <b>7,615,000</b>                       | <b>-</b>                     | <b>-</b>                          | <b>135,000</b>              | <b>-</b>                          | <b>7,480,000</b>                            |  |

During the Report Period, 135,000 share options were lapsed.

Save as disclosed, during the Report Period, no share options were granted, exercised, lapsed and cancelled under the Pre-IPO Share Option Scheme.

Further details of the Pre-IPO Share Option Scheme are set out in note 28 to the financial statements.

### Share Option Scheme

The Company adopted the Share Option Scheme on 12 April 2019, which became effective on the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to recognize and motivate the contributions that eligible participants have made or may make to the Group. The eligible participants include employees (whether full-time or part-time), directors of the Company or any subsidiary or any entity in which the Group holds at least 20% of its issued share capital (the "Invested Entity"), suppliers, customers, technological service providers, Shareholders, consultants, joint venture or other business partners to any member of the Group or any Invested Entity. The eligible participants shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the shares in issue as at the Listing Date (i.e. 23,454,475 Shares) unless approved by the Shareholders. No option shall be granted to any eligible participant which, if exercised in full would result in the total number of the Shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the Share Option Scheme and the Pre-IPO Share Option Scheme (including exercised, cancelled and outstanding share options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. Any grant of further options above this limit shall be subject to the approval of the Shareholders at general meeting.

## DIRECTORS' REPORT

The exercise price for any share option under the Share Option Scheme shall be a price determined by the Board and shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date of the relevant option; (ii) an amount equivalent to the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date of the relevant option; and (iii) the nominal value of a share on the offer date.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the offer date subject to the provisions of early termination thereof. An offer for the grant of options must be accepted not later than 21 days from the offer date and a remittance of HK\$1 is payable on acceptance of the grant of an option.

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption. The remaining life of the Share Option Scheme is eight years. No share option has been granted under the Share Option Scheme and the total number of securities available for issue under the Share Option Scheme is 23,454,475 Shares, representing approximately 10.04% of the issued Shares as at the date of this report.

### CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 32 to the financial statements constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

For the Reporting Period, the Group entered into various transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules and are continuing after the Listing Date. All the continuing connected transactions during the Reporting Period that need to be disclosed herein are in compliance with the Listing Rules. The actual monetary value of the continuing connected transactions of the Group for the Reporting Period is set out below:

| Connected Person  | Nature of Transactions | Actual monetary value for the year ended 31 December 2020<br>HK\$'000 |
|---|------------------------|---|
| <b>China Aluminum Cans and its subsidiaries (collectively, the "China Aluminum Cans Group") ("Master Supply Agreement")</b> |                        |   |
| Euro Asia Packaging (Guangdong) Co., Limited*<br>(廣東歐亞包裝股份有限公司, "Euro Asia Packaging")                                      | Purchase of products   | 26,368  |
| Hong Kong Aluminum Cans Limited   | Purchase of products   | 9,929   |
|   | Total                  | 36,297  |

\* For identification purpose only

## DIRECTORS' REPORT

Further information on Master Supply Agreement is provided as follows:

### **Master Supply Agreement:**

China Aluminum Cans Group is including, but not limited to, Euro Asia Packing and Hong Kong Aluminum Cans Limited.

On 17 April 2019, Hong Kong Aluminum Cans Limited and the Company (for itself and on behalf of its subsidiaries) entered into the master supply agreement (as amended and supplemented by a supplemental agreement dated 7 May 2019) (the "Master Supply Agreement"), pursuant to which the Group agreed to purchase from China Aluminum Cans Group certain monobloc aluminum aerosol cans from the Listing Date to 31 December 2021. The selling price was determined with reference to the costs of products (including with the logistic costs, taxes, insurance and other relevant costs) plus a profit margin, selling price offered to independent customers and of the same or comparable products in the market.

As set out in the announcement of China Aluminum Cans dated 17 April 2019, the circular of China Aluminum Cans dated 9 May 2019 and the prospectus of the Company dated 3 June 2019, the annual caps under the Master Supply Agreement for the period from the Listing Date to 31 December 2019, the year ended 31 December 2020 and the year ending 31 December 2021 were HK\$25.1 million, HK\$39.2 million and HK\$47.0 million, respectively.

In 2018, China Aluminum Cans proposed to spin-off and separately list the shares of the aerosol and non-aerosol products business of the group under the Company on the Main Board of the Stock Exchange. On 21 June 2019, the shares of the Company were listed on the Stock Exchange and ceased to be a subsidiary of China Aluminum Cans thereafter. As all issued shares were distributed to original shareholders of China Aluminum Cans by way of one share of the Company for every four shares of China Aluminum Cans held, China Aluminum Cans is a connected person to the Company, and thus, the transactions contemplated under the Master Supply Agreement constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules. The applicable percentage ratios under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Master Supply Agreement, on an annual basis, exceed 5% and HK\$10 million. Therefore, the transactions contemplated under the Master Supply Agreement shall be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company's auditor was engaged to report on the non-exempt continuing connected transaction and has issued a letter to the Board setting out the confirmation required under Rule 14A.56 of the Listing Rules and a copy of which has been provided by the Company to the Stock Exchange.

All independent non-executive Directors had reviewed the non-exempt continuing connected transaction and confirmed that the non-exempt continuing connected transaction for the Reporting Period was:

- (i) in the ordinary and usual course of the Company's business;
- (ii) on normal commercial terms or better to the Company; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## DIRECTORS' REPORT

### PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued shares was held by the public as at the date of this report.

### FUTURE PROSPECTS AND DEVELOPMENT

Our management believes 2021 will be a difficult year for the Group due to (i) the uncertainty in the global economic environment; (ii) the soft landing of growth in consumable products and domestic demands in both automotive beauty products and personal care products in PRC caused by the outbreak of novel coronavirus pneumonia; (iii) the volatile fluctuation of RMB against USD; and (iv) the increasing competition from small-sized competitors.

Whatever the market fluctuations may bring, our Group remains optimistic about the outlook of the worldwide and domestic automotive beauty and personal care manufacturing industry. The Group will focus on developing our Original Brand Manufacturing business by broadening the international markets, implementing the e-commerce strategies, launching new series of products to meet market demands and enhancing the brand recognition.

### AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer itself for re-appointment. A resolution will be submitted to the AGM to be held on 12 May 2021 to seek the Shareholders' approval on the appointment of Ernst & Young as the Company's auditor until the conclusion of the next AGM and to authorize the Board to fix its remuneration.

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

# INDEPENDENT AUDITOR'S REPORT

## To the shareholders of Precious Dragon Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

### OPINION

We have audited the consolidated financial statements of Precious Dragon Technology Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 141, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT

### KEY AUDIT MATTERS *(continued)*

| Key audit matter  | How our audit addressed the key audit matter   |
|---|--|
| <b><i>Inventory provisions</i></b><br><br>The Group had inventories of HK\$56,374,000 as at 31 December 2020, which represented a significant balance. Significant management judgement was required to assess whether the carrying amount of these inventories was higher than the net realisable value. Judgements were also required in determining the damaged, slow-moving and obsolete inventories as these were based on forecasted inventory usage or sales.<br><br>The relevant disclosures are contained in notes 9 and 18 to the financial statements. | <br>We evaluated the management's process of identifying the damaged, slow-moving and obsolete inventories and calculating the provisions.<br><br>We assessed the reasonability of provisions by comparing the ageing of inventories and the subsequent usage and sales of inventories.<br><br>We assessed the reasonableness of the net realizable values, on a sample basis, by comparing the estimated selling prices to market sales data in similar locations or to recent sales, assessing the data and assumptions adopted to determine the estimated costs of completion and the estimated costs necessary to make the sale. We also observed the status of inventories in stock-take to inspect obsolete and damaged inventories. |

### OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## INDEPENDENT AUDITOR'S REPORT

### RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## INDEPENDENT AUDITOR'S REPORT

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

*(continued)*

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: *(continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Ernst & Young  
Certified Public Accountants  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong  
23 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

|   | Notes | 2020<br>HK\$'000    | 2019<br>HK\$'000 |
|---|-------|---------------------|------------------|
| REVENUE   | 8     | <b>665,651</b>      | 561,535          |
| Cost of sales   |       | <b>(442,135)</b>    | (397,362)        |
| Gross profit  |       | <b>223,516</b>      | 164,173          |
| Other income and gains  | 8     | <b>14,827</b>       | 12,725           |
| Selling and distribution expenses   |       | <b>(49,938)</b>     | (54,628)         |
| Administrative expenses   |       | <b>(56,074)</b>     | (45,559)         |
| Research and development expenses   | 9     | <b>(21,371)</b>     | (20,169)         |
| Impairment losses on financial assets   | 9     | <b>(4,110)</b>      | (803)            |
| Other expenses  |       | <b>(12,191)</b>     | (2,678)          |
| Finance costs   | 10    | <b>(1,406)</b>      | (2,327)          |
| PROFIT BEFORE TAX   | 9     | <b>93,253</b>       | 50,734           |
| Income tax expenses   | 13    | <b>(29,617)</b>     | (12,620)         |
| PROFIT FOR THE YEAR   |       | <b>63,636</b>       | 38,114           |
| 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   |       | <b>12,882</b>       | (3,583)          |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR   |       | <b>76,518</b>       | 34,531           |
| Profit attributable to:   |       |                     |                  |
| Owners of the parent  |       | <b>53,161</b>       | 37,412           |
| Non-controlling interests   |       | <b>10,475</b>       | 702              |
|   |       | <b>63,636</b>       | 38,114           |
| Total comprehensive income attributable to:   |       |                     |                  |
| Owners of the parent  |       | <b>64,940</b>       | 34,000           |
| Non-controlling interests   |       | <b>11,578</b>       | 531              |
|   |       | <b>76,518</b>       | 34,531           |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT                            | 15    |                     |                  |
| Basic   |       | <b>HK22.8 cents</b> | HK16.0 cents     |
| Diluted   |       | <b>HK22.8 cents</b> | HK16.0 cents     |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

|  | Notes | 31 December<br>2020<br>HK\$'000 | 31 December<br>2019<br>HK\$'000 |
|--|-------|---------------------------------|---------------------------------|
| <b>NON-CURRENT ASSETS</b>                    |       |                                 |                                 |
| Property, plant and equipment                | 16    | <b>163,680</b>                  | 96,199                          |
| Right-of-use assets                          | 17    | <b>58,396</b>                   | 55,942                          |
| Deferred tax assets                          | 26    | <b>3,790</b>                    | 2,160                           |
| Non-current prepayments                      | 20    | <b>19,245</b>                   | 44,010                          |
| <b>Total non-current assets</b>              |       | <b>245,111</b>                  | 198,311                         |
| <b>CURRENT ASSETS</b>                        |       |                                 |                                 |
| Inventories                                  | 18    | <b>56,374</b>                   | 49,157                          |
| Trade and bills receivables                  | 19    | <b>40,482</b>                   | 30,294                          |
| Prepayments, deposits and other receivables  | 20    | <b>13,367</b>                   | 5,936                           |
| Pledged bank deposits                        | 21    | <b>4,319</b>                    | 3,424                           |
| Cash and cash equivalents                    | 21    | <b>161,622</b>                  | 134,953                         |
| <b>Total current assets</b>                  |       | <b>276,164</b>                  | 223,764                         |
| <b>CURRENT LIABILITIES</b>                   |       |                                 |                                 |
| Trade and bills payables                     | 22    | <b>53,273</b>                   | 42,329                          |
| Other payables and accruals                  | 23    | <b>105,521</b>                  | 55,360                          |
| Interest-bearing bank and other borrowings   | 24    | <b>68,605</b>                   | 15,152                          |
| Tax payable                                  |       | <b>3,432</b>                    | 2,722                           |
| Deferred income                              | 25    | <b>238</b>                      | 224                             |
| <b>Total current liabilities</b>             |       | <b>231,069</b>                  | 115,787                         |
| <b>NET CURRENT ASSETS</b>                    |       | <b>45,095</b>                   | 107,977                         |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |       | <b>290,206</b>                  | 306,288                         |
| <b>NON-CURRENT LIABILITIES</b>               |       |                                 |                                 |
| Due to a related party                       | 23    | <b>60,000</b>                   | —                               |
| Interest-bearing bank and other borrowings   | 24    | <b>178</b>                      | 25,082                          |
| Deferred tax liabilities                     | 26    | <b>2,641</b>                    | 1,769                           |
| Deferred income                              | 25    | <b>1,663</b>                    | 1,790                           |
| <b>Total non-current liabilities</b>         |       | <b>64,482</b>                   | 28,641                          |
| <b>Net assets</b>                            |       | <b>225,724</b>                  | 277,647                         |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

31 December 2020

|  | Notes | 31 December<br>2020<br>HK\$'000 | 31 December<br>2019<br>HK\$'000 |
|--|-------|---------------------------------|---------------------------------|
| EQUITY   |       |                                 |                                 |
| <b>Equity attributable to owners of the parent</b> |       |                                 |                                 |
| Share capital                                      | 27    | 2,335                           | 2,335                           |
| Other reserves                                     | 29    | 223,485                         | 273,139                         |
|  |       | <b>225,820</b>                  | 275,474                         |
| Non-controlling interests                          |       | (96)                            | 2,173                           |
| Total equity                                       |       | <b>225,724</b>                  | 277,647                         |

**Ko Sau Mee**  
*Director*

**Lin Hing Lei**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

|   | Attributable to owners of the parent   |                                      |                               |   |   |   |  |                                 |                   |  |                             |
|---|--|--------------------------------------|-------------------------------|---|---|---|--|---------------------------------|-------------------|--|-----------------------------|
|   | Share capital<br>HK\$'000<br>(note 27) | Share premium<br>account<br>HK\$'000 | Merger<br>reserve<br>HK\$'000 | Share<br>option<br>reserve<br>HK\$'000<br>(note 28) | Other<br>reserve<br>HK\$'000<br>(note 29) | Reserve<br>funds<br>HK\$'000<br>(note 29) | Exchange<br>fluctuation<br>reserve<br>HK\$'000 | Retained<br>profits<br>HK\$'000 | Total<br>HK\$'000 | Non-<br>controlling<br>interests<br>HK\$'000 | Total<br>equity<br>HK\$'000 |
| At 1 January 2020   | 2,335                                  | 37,330                               | (62,722)                      | 2,306   | —   | 47,905                                    | (17,492)                                       | 265,812                         | 275,474           | 2,173  | 277,647                     |
| Profit for the year   | —                                      | —                                    | —                             | —   | —   | —   | —  | 53,161                          | 53,161            | 10,475                                       | 63,636                      |
| Other comprehensive income for the year:                        |  |                                      |                               |   |   |   |  |                                 |                   |  |                             |
| Exchange differences on translation<br>of foreign operations    | —                                      | —                                    | —                             | —   | —   | —   | 11,779   | —                               | 11,779            | 1,103  | 12,882                      |
| Total comprehensive income for the year                         | —                                      | —                                    | —                             | —   | —   | —   | 11,779   | 53,161                          | 64,940            | 11,578                                       | 76,518                      |
| Equity-settled share option arrangements                        | —                                      | —                                    | —                             | 2,816   | —   | —   | —  | —                               | 2,816             | —  | 2,816                       |
| Acquisition of additional interest in<br>a subsidiary (note 29) | —                                      | —                                    | —                             | —   | (107,016)                                 | —   | —  | —                               | (107,016)         | (12,984)                                     | (120,000)                   |
| Transfer from retained profits                                  | —                                      | —                                    | —                             | —   | —   | 2,470                                     | —  | (2,470)                         | —                 | —  | —                           |
| Dividends paid  | —                                      | —                                    | —                             | —   | —   | —   | —  | (10,394)*                       | (10,394)          | (863)  | (11,257)                    |
| At 31 December 2020   | 2,335                                  | 37,330 <sup>#</sup>                  | (62,722) <sup>#</sup>         | 5,122 <sup>#</sup>                                  | (107,016) <sup>#</sup>                    | 50,375 <sup>#</sup>                       | (5,713) <sup>#</sup>                           | 306,109 <sup>#</sup>            | 225,820           | (96)   | 225,724                     |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Year ended 31 December 2020

|   | Attributable to owners of the parent |                       |                       |                      |                     |                              |                      |          |                           |              |
|---|--------------------------------------|-----------------------|-----------------------|----------------------|---------------------|------------------------------|----------------------|----------|---------------------------|--------------|
|   | Share capital                        | Share premium account | Merger reserve        | Share option reserve | Reserve funds       | Exchange fluctuation reserve | Retained profits     | Total    | Non-controlling interests | Total equity |
|   | HK\$'000                             | HK\$'000              | HK\$'000              | HK\$'000             | HK\$'000            | HK\$'000                     | HK\$'000             | HK\$'000 | HK\$'000                  | HK\$'000     |
|   | (note 27)                            |                       |                       | (note 28)            | (note 29)           |                              |                      |          |                           |              |
| At 1 January 2019   | —                                    | 16,221                | (62,722)              | —                    | 46,949              | (14,080)                     | 234,435              | 220,803  | 7,633                     | 228,436      |
| Profit for the year                                       | —                                    | —                     | —                     | —                    | —                   | —                            | 37,412               | 37,412   | 702                       | 38,114       |
| Other comprehensive loss for the year:                    |                                      |                       |                       |                      |                     |                              |                      |          |                           |              |
| Exchange differences on translation of foreign operations | —                                    | —                     | —                     | —                    | —                   | (3,412)                      | —                    | (3,412)  | (171)                     | (3,583)      |
| Total comprehensive income for the year                   | —                                    | —                     | —                     | —                    | —                   | (3,412)                      | 37,412               | 34,000   | 531                       | 34,531       |
| Issue of share capital                                    | 2,345                                | 21,109                | —                     | —                    | —                   | —                            | —                    | 23,454   | —                         | 23,454       |
| Shares repurchased and cancelled                          | (10)                                 | —                     | —                     | —                    | —                   | —                            | (1,795)              | (1,805)  | —                         | (1,805)      |
| Equity-settled share option arrangements                  | —                                    | —                     | —                     | 2,306                | —                   | —                            | —                    | 2,306    | —                         | 2,306        |
| Transfer from retained profits                            | —                                    | —                     | —                     | —                    | 956                 | —                            | (956)                | —        | —                         | —            |
| Dividends paid  | —                                    | —                     | —                     | —                    | —                   | —                            | (3,284)*             | (3,284)  | (5,991)                   | (9,275)      |
| At 31 December 2019                                       | 2,335                                | 37,330 <sup>#</sup>   | (62,722) <sup>#</sup> | 2,306 <sup>#</sup>   | 47,905 <sup>#</sup> | (17,492) <sup>#</sup>        | 265,812 <sup>#</sup> | 275,474  | 2,173                     | 277,647      |

Note:

<sup>#</sup> These reserve accounts comprise the credit consolidated reserves of HK\$223,485,000 (2019: HK\$273,139,000) in the consolidated statement of financial position.

\* The final dividends paid were approved at the annual general meeting.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

|  | Notes | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                        |       |                  |                  |
| Profit before tax  |       | <b>93,253</b>    | 50,734           |
| Adjustments for:   |       |                  |                  |
| Finance costs  | 10    | <b>1,406</b>     | 2,327            |
| Bank interest income   | 8     | <b>(666)</b>     | (679)            |
| Loss on disposal of property, plant and equipment, net             | 9     | <b>743</b>       | 168              |
| Equity-settled share option expense                                | 28    | <b>2,816</b>     | 2,306            |
| Depreciation of items of property, plant and equipment             | 16    | <b>18,445</b>    | 16,933           |
| Depreciation of right-of use assets                                | 17    | <b>4,255</b>     | 1,570            |
| Write-down of inventories  | 9     | <b>1,700</b>     | 1,544            |
| Impairment losses on financial assets                              | 9     | <b>4,110</b>     | 803              |
|  |       | <b>126,062</b>   | 75,706           |
| (Increase)/decrease in inventories                                 |       | <b>(9,182)</b>   | 6,263            |
| (Increase)/decrease in trade and bills receivables                 |       | <b>(14,592)</b>  | 8,144            |
| (Increase)/decrease in prepayments, deposits and other receivables |       | <b>(7,431)</b>   | 3,235            |
| Increase/(decrease) in trade and bills payables                    |       | <b>10,944</b>    | (26,261)         |
| Increase in other payables and accruals                            |       | <b>4,261</b>     | 669              |
| Decrease in deferred income  |       | <b>(225)</b>     | (227)            |
| Cash generated from operations                                     |       | <b>109,837</b>   | 67,529           |
| Withholding tax paid   |       | <b>(7,941)</b>   | (2,722)          |
| Tax paid   |       | <b>(23,052)</b>  | (12,355)         |
| Net cash flows from operating activities                           |       | <b>78,844</b>    | 52,452           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                        |       |                  |                  |
| Purchases of items of property, plant and equipment                |       | <b>(56,510)</b>  | (50,239)         |
| Proceeds from disposal of items of property, plant and equipment   |       | <b>89</b>        | 108              |
| (Increase)/decrease in pledged bank deposits                       |       | <b>(895)</b>     | 1,506            |
| Interest received  |       | <b>666</b>       | 679              |
| Net cash flows used in investing activities                        |       | <b>(56,650)</b>  | (47,946)         |

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended 31 December 2020

|   | Notes | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                     |       |                  |                  |
| Proceeds from issue of shares   |       | —                | 23,454           |
| Shares repurchased and cancelled  |       | —                | (1,805)          |
| New bank loans  |       | <b>52,826</b>    | 15,000           |
| Repayment of bank loans   |       | <b>(25,000)</b>  | (50,000)         |
| Dividends paid  |       | <b>(10,394)</b>  | (3,284)          |
| Dividends paid to a non-controlling shareholder                                 |       | <b>(863)</b>     | (5,991)          |
| Principal portion of lease payments   |       | <b>(2,693)</b>   | (120)            |
| Interest paid   |       | <b>(1,331)</b>   | (2,327)          |
| Decrease in amounts due from related parties                                    |       | —                | 928              |
| (Decrease)/increase in amounts due to related parties                           |       | <b>(14,100)</b>  | 13,770           |
| Net cash flows used in financing activities                                     |       | <b>(1,555)</b>   | (10,375)         |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>                     |       |                  |                  |
| Exchange realignment  |       | <b>6,030</b>     | (1,670)          |
| Cash and cash equivalents at beginning of year                                  |       | <b>134,953</b>   | 142,492          |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                 | 21    | <b>161,622</b>   | 134,953          |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>                        |       |                  |                  |
| Cash and bank balances  | 21    | <b>165,941</b>   | 138,377          |
| Pledged bank deposits   |       | <b>(4,319)</b>   | (3,424)          |
| Cash and cash equivalents as stated in the consolidated statement of cash flows |       | <b>161,622</b>   | 134,953          |
| <b>Non-cash transactions:</b>   |       |                  |                  |
| Acquisition of additional interests in a subsidiary                             | 29    | <b>120,000</b>   | —                |

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 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 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").

### Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

| Company Name  | Place of incorporation/<br>registration and<br>business | Issued<br>ordinary/<br>registered<br>share capital | Percentage of equity<br>attributable<br>to the Company |               | Principal activities   |
|---|---|--|--|---------------|--|
|   |   |  | Direct<br>%  | Indirect<br>% |  |
| 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 |

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. CORPORATE AND GROUP INFORMATION (continued)

## Information about subsidiaries (continued)

| Company Name   | Place of incorporation/<br>registration and<br>business | Issued<br>ordinary/<br>registered<br>share capital | Percentage of equity<br>attributable<br>to the Company |               | Principal activities  |
|--|---|--|--|---------------|---|
|  |   |  | Direct<br>%  | Indirect<br>% |   |
| Botny Hongkong Co., Limited  | Hong Kong   | US\$100,000  | —  | 100           | Trading of aerosol and non-aerosol products   |
| Guangzhou Shentian Woye Trading Co., Ltd.<br>("Guangzhou Shentian")<br>(廣州深田沃業貿易有限公司)* | PRC   | RMB10,000,000                                      | —  | 100           | Investment holding  |
| Euro Asia Japan Co., Ltd.<br>(株式会社<br>ユーロアジア・ジャパン)                                     | Japan   | JPY9,000,000                                       | —  | 100           | Trading of aerosol and non-aerosol products   |
| China Medical Beauty Bio-Technology Company Limited ("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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 2. BASIS OF PREPARATION *(continued)*

#### Basis of consolidation *(continued)*

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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

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

- (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.
- (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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 4. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

|   |   |
|---|---|
| Amendments to IFRS 3  | <i>Reference to the Conceptual Framework<sup>2</sup></i>  |
| Amendments to IFRS 9, IAS 39, IFRS 7,<br>IFRS 4 and IFRS 16 | <i>Interest Rate Benchmark Reform - Phase 2<sup>1</sup></i>   |
| Amendments to IAS 1   | <i>Classification of Liabilities as Current or Non-current<sup>3</sup></i>                                  |
| Amendments to IAS 16  | <i>Property, Plant and Equipment: Proceeds<br/>before Intended Use<sup>2</sup></i>                          |
| Annual Improvements to IFRS standards 2018-2020             | <i>Amendments to IFRS 1, IFRS 9, Illustrative Examples<br/>accompanying IFRS 16, and IAS 41<sup>2</sup></i> |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 4. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

*(continued)*

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 4. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

(continued)

*Annual Improvements to IFRS standards 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

### 5. 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, contract assets, 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 reporting period 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, but 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Related parties

A party is considered to be related to the Group 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 Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the Group (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group 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 Group or an entity related to the Group;
  - (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 Group or to the parent of the Group.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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:

|                            |                 |
|----------------------------|-----------------|
| Land                       | Not depreciated |
| Buildings                  | 4.5%            |
| Plant and machinery        | 4.5%-9%         |
| Office and other equipment | 18%             |
| Motor vehicles and yacht   | 9%-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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Property, plant and equipment and depreciation *(continued)*

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 Group 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.

#### Group as a lessee

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

#### (a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any 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:

|                |                |
|----------------|----------------|
| Leasehold land | 50 years       |
| Buildings      | 1.5 to 3 years |

If ownership of the leased asset transfers to the Group 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Leases *(continued)*

##### Group as a lessee *(continued)*

##### (b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease 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 Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because 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.

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is 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 recognition exemption for leases of low-value assets, such as to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

#### Investments and other financial assets

##### 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 Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group 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 Group 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Investments and other financial assets** *(continued)*

##### *Initial recognition and measurement (continued)*

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 Group'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 Group 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.

##### *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.

#### **Derecognition of financial assets**

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 Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group 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 Group has retained.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Derecognition of financial assets** *(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 Group could be required to repay.

#### **Impairment of financial assets**

The Group 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 Group 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 Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group 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 Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Impairment of financial assets** *(continued)*

##### Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group 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.

#### **Financial liabilities**

##### 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.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments 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 profit or loss 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 profit or loss.

#### **Derecognition of financial liabilities**

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 profit or loss.

#### **Offsetting of financial instruments**

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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. 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 consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash, 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 Group's cash management.

For the purpose of the consolidated 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 profit or loss.

#### **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 Group 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.

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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Income tax** *(continued)*

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, 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 Group 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 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Revenue recognition *(continued)*

##### 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 recognized 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).

#### Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Share-based payments** *(continued)*

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### **Other employee benefits**

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are 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. Proposed final dividends are disclosed in the notes to the financial statements.

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

#### **Foreign currencies**

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 5. 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 Group 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 Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries 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 consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### 6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group'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.

#### Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### Tax

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

#### **Judgements** *(continued)*

##### *Tax (continued)*

Deferred tax assets are recognised to the extent that it is probable that future taxable profits 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.

Deferred tax liabilities are recognised for a withholding tax levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends to be declared.

#### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each 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 Group 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, the expected usage of the asset, the 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 Group 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 2020 and 2019 were HK\$163,680,000 and HK\$96,199,000, respectively. Further details are given in note 16.

##### **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.

##### **Provision for expected credit losses on trade receivables**

The Group 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., ageing of the balances and recent historical payment patterns).

The provision matrix is initially based on the Group's historical observed default rates. The Group 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

#### **Estimation uncertainty** *(continued)*

##### *Provision for expected credit losses on trade receivables (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 Group'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 Group's trade receivables is disclosed in note 19 to the financial statements.

##### *Leases – Estimating the incremental borrowing rate*

The Group 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 Group 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 Group "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 Group 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).

### 7. 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.

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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 7. OPERATING SEGMENT INFORMATION *(continued)*

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<br>beauty and<br>maintenance<br>products<br>HK\$'000 | Personal care<br>products<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---------------------------------------|-------------------|
| <b>Segment revenue:</b>                  |   |                                       |                   |
| Sales to customers                       | 473,869   | 191,782                               | 665,651           |
| Intersegment sales                       | 549   | —                                     | 549               |
| Total                                    | 474,418   | 191,782                               | 666,200           |
| <i>Reconciliation:</i>                   |   |                                       |                   |
| Elimination of intersegment sales        |   |                                       | (549)             |
| Revenue                                  |   |                                       | 665,651           |
| 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)           |
| Profit before tax                        |   |                                       | 93,253            |

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 7. OPERATING SEGMENT INFORMATION (continued)

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 7. OPERATING SEGMENT INFORMATION *(continued)*

| Year ended 31 December 2019              | Automotive<br>beauty and<br>maintenance<br>products<br>HK\$'000 | Personal care<br>products<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---------------------------------------|-------------------|
| <b>Segment revenue:</b>                  |   |                                       |                   |
| Sales to customers                       | 506,549   | 54,986                                | 561,535           |
| Intersegment sales                       | 197   | —                                     | 197               |
| Total                                    | 506,746   | 54,986                                | 561,732           |
| <i>Reconciliation:</i>                   |   |                                       |                   |
| Elimination of intersegment sales        |   |                                       | (197)             |
| Revenue                                  |   |                                       | 561,535           |
| 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)           |
| Profit before tax                        |   |                                       | 50,734            |

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

7. OPERATING SEGMENT INFORMATION *(continued)*

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 7. OPERATING SEGMENT INFORMATION *(continued)*

#### Geographical information

##### (a) Revenue from external customers

|                | 2020<br>HK\$'000 | 2019<br>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            |
|                | <b>665,651</b>   | 561,535          |

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.

**NOTES TO FINANCIAL STATEMENTS**

31 December 2020

**8. REVENUE, OTHER INCOME AND GAINS****Revenue**

An analysis of revenue is as follows:

|                                       | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Revenue from contracts with customers | 665,651          | 561,535          |

## Revenue from contracts with customers

(a) Disaggregated revenue information

**For the year ended 31 December 2020**

| Segments                                    | Automotive<br>beauty and<br>maintenance<br>products<br>HK\$'000 | Personal<br>care products<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|---------------------------------------|-------------------|
| <b>Type of goods</b>                        |   |                                       |                   |
| Sale of industrial products                 | 473,869   | 191,782                               | 665,651           |
| <b>Geographical markets</b>                 |   |                                       |                   |
| 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                                      | 3,697   | 615                                   | 4,312             |
| Total revenue from contracts with customers | 473,869   | 191,782                               | 665,651           |
| <b>Timing of revenue recognition</b>        |   |                                       |                   |
| Goods transferred at a point in time        | 473,869   | 191,782                               | 665,651           |

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 8. 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<br>beauty and<br>maintenance<br>products<br>HK\$'000 | Personal<br>care products<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|---------------------------------------|-------------------|
| <b>Type of goods</b>                        |   |                                       |                   |
| Sale of industrial products                 | 506,549   | 54,986                                | 561,535           |
| <b>Geographical markets</b>                 |   |                                       |                   |
| 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                                      | 3,599   | —                                     | 3,599             |
| Total revenue from contracts with customers | 506,549   | 54,986                                | 561,535           |
| <b>Timing of revenue recognition</b>        |   |                                       |                   |
| Goods transferred at a point in time        | 506,549   | 54,986                                | 561,535           |

**NOTES TO FINANCIAL STATEMENTS**

31 December 2020

**8. 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<br>beauty and<br>maintenance<br>products<br>HK\$'000 | Personal<br>care products<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---------------------------------------|-------------------|
| <b>Revenue from contracts with customers</b> |   |                                       |                   |
| External customers                           | 473,869   | 191,782                               | 665,651           |
| Intersegment sales                           | 549   | —                                     | 549               |
| Intersegment adjustments and eliminations    | (549)   | —                                     | (549)             |
| Total revenue from contracts with customers  | 473,869   | 191,782                               | 665,651           |

**For the year ended 31 December 2019**

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 8. 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<br>HK\$'000 | 2019<br>HK\$'000 |
|--|------------------|------------------|
| Revenue recognised that was included in the contract liabilities at the beginning of the reporting period: |                  |                  |
| Sale of industrial products  | 9,339            | 11,717           |

#### (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:

|   | Note  | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---|-------|------------------|------------------|
| Amounts expected to be recognised as revenue: |       |                  |                  |
| Within one year                               | 23(b) | 6,724            | 9,339            |

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

**NOTES TO FINANCIAL STATEMENTS**

31 December 2020

**8. REVENUE, OTHER INCOME AND GAINS** *(continued)***Other income and gains**

|   | 2020<br>HK\$'000 | 2019<br>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              |
|   | <b>14,827</b>    | 12,725           |

\* 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 9. PROFIT BEFORE TAX

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

|   | Notes | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---|-------|------------------|------------------|
| Cost of inventories sold  |       | <b>442,135</b>   | 397,362          |
| Depreciation of property, plant and equipment   | 16    | <b>18,445</b>    | 16,933           |
| Depreciation of right-of-use assets   | 17    | <b>4,255</b>     | 1,570            |
| Auditor's remuneration  |       | <b>2,169</b>     | 2,779            |
| Research and development costs  |       | <b>21,371</b>    | 20,169           |
| Lease payments not included in the measurement of lease liabilities                           | 17    | <b>487</b>       | 477              |
| Employee benefit expense (including directors' and chief executive's remuneration (note 11)): |       |                  |                  |
| Wages and salaries  |       | <b>45,908</b>    | 39,007           |
| Equity-settled share option expense   | 28    | <b>2,816</b>     | 2,306            |
| Pension scheme contributions  |       | <b>4,914</b>     | 4,910            |
|   |       | <b>53,638</b>    | 46,223           |
| Exchange losses, net*   |       | <b>6,204</b>     | 86               |
| Loss on disposal of items of property, plant and equipment, net*                              |       | <b>743</b>       | 168              |
| Impairment losses on financial assets   | 19    | <b>4,110</b>     | 803              |
| Write-down of inventories to net realisable value*  |       | <b>1,700</b>     | 1,544            |

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

# NOTES TO FINANCIAL STATEMENTS

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## 10. FINANCE COSTS

|   | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---|------------------|------------------|
| Interest on bank loans wholly repayable within five years | 1,331            | 2,322            |
| Interest on lease liabilities (note 17)                   | 75               | 5                |
|   | <b>1,406</b>     | 2,327            |

## 11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, 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:

|   | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---|------------------|------------------|
| Fees                                      | 3,426            | 1,457            |
| Other emoluments:                         |                  |                  |
| Salaries, allowances and benefits in kind | 895              | 832              |
| Equity-settled share option expense       | 880              | 710              |
| Pension scheme contributions              | 94               | 57               |
|   | <b>1,869</b>     | 1,599            |
| Total                                     | <b>5,295</b>     | 3,056            |

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 11. DIRECTORS' REMUNERATION *(continued)*

#### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

|                     | Fees<br>HK\$'000 | Pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>remuneration<br>HK\$'000 |
|---------------------|------------------|--|-----------------------------------|
| 2020                |                  |  |                                   |
| Mr. Poon Tak Ching  | 202              | 10   | 212                               |
| Mr. Pang Cheung Wai | 202              | 10   | 212                               |
| Mr. Lee Yiu Pui     | 202              | 10   | 212                               |
| <b>Total</b>        | <b>606</b>       | <b>30</b>                                      | <b>636</b>                        |

|                     | Fees<br>HK\$'000 | Pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>remuneration<br>HK\$'000 |
|---------------------|------------------|--|-----------------------------------|
| 2019                |                  |  |                                   |
| Mr. Poon Tak Ching  | 116              | 6  | 122                               |
| Mr. Pang Cheung Wai | 116              | 6  | 122                               |
| Mr. Lee Yiu Pui     | 116              | 6  | 122                               |
| <b>Total</b>        | <b>348</b>       | <b>18</b>                                      | <b>366</b>                        |

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 11. DIRECTORS' REMUNERATION (continued)

## (b) Executive directors

|                      | Fees<br>HK\$'000 | Salaries,<br>allowances<br>and benefits<br>in kind<br>HK\$'000 | Equity-settled<br>share option<br>expense<br>HK\$'000 | Pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>remuneration<br>HK\$'000 |
|----------------------|------------------|--|---|--|-----------------------------------|
| <b>2020</b>          |                  |  |   |  |                                   |
| Executive directors: |                  |  |   |  |                                   |
| Ms. Ko Sau Mee       | 1,111            | —  | 244   | 18   | 1,373                             |
| Mr. Lin Hing Lung    | 786              | 214  | 244   | 18   | 1,262                             |
| Ms. Lin Hing Lei     | 722              | 302  | 244   | 17   | 1,285                             |
| Mr. Yang Xiaoye      | 201              | 379  | 148   | 11   | 739                               |
| <b>Total</b>         | <b>2,820</b>     | <b>895</b>   | <b>880</b>  | <b>64</b>                                      | <b>4,659</b>                      |

|                      | Fees<br>HK\$'000 | Salaries,<br>allowances<br>and benefits<br>in kind<br>HK\$'000 | Equity-settled<br>share option<br>expense<br>HK\$'000 | Pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>remuneration<br>HK\$'000 |
|----------------------|------------------|--|---|--|-----------------------------------|
| <b>2019</b>          |                  |  |   |  |                                   |
| Executive directors: |                  |  |   |  |                                   |
| Ms. Ko Sau Mee       | 639              | —  | 197   | 11   | 847                               |
| Mr. Lin Hing Lung    | 258              | 216  | 197   | 11   | 682                               |
| Ms. Lin Hing Lei     | 173              | 345  | 197   | 8  | 723                               |
| Mr. Yang Xiaoye      | 39               | 271  | 119   | 9  | 438                               |
| <b>Total</b>         | <b>1,109</b>     | <b>832</b>   | <b>710</b>  | <b>39</b>                                      | <b>2,690</b>                      |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

**NOTES TO FINANCIAL STATEMENTS**

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**12. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included four directors (2019: three), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the one (2019: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

|   | <b>2020</b><br><b>HK\$'000</b> | <b>2019</b><br><b>HK\$'000</b> |
|---|--------------------------------|--------------------------------|
| Salaries, allowances and benefits in kind | 629                            | 563                            |
| Equity-settled share option expense       | 244                            | 234                            |
| Pension scheme contributions              | 22                             | 19                             |
|   | <b>895</b>                     | 816                            |

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

|                      | <b>2020</b> | <b>2019</b> |
|----------------------|-------------|-------------|
| Nil to HK\$1,000,000 | 1           | 2           |

During the year, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant, and the amount included in the financial statements for the year is included in the above non-director, highest paid employees' remuneration disclosures.

**13. 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%.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

**13. INCOME TAX EXPENSES** (continued)

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<br>HK\$'000 | 2019<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| Current – Mainland China             | 21,898           | 9,770            |
| Current – Hong Kong                  | 8,267            | 3,500            |
| Deferred (note 26)                   | (548)            | (650)            |
| <b>Total tax charge for the year</b> | <b>29,617</b>    | 12,620           |

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  | 93,253        |             | 50,734   |        |
| 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  | 4,308         | 4.6         | 3,462    | 6.8    |
| <b>Tax charge at the Group's effective tax rate</b>                      | <b>29,617</b> | <b>31.8</b> | 12,620   | 24.9   |

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 14. DIVIDENDS

|   | 2020<br>HK\$'000 | 2019<br>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 | 5,722            | 5,722            |
|   | <b>10,393</b>    | 9,006            |

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.

### 15. 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<br>HK\$'000 | 2019<br>HK\$'000 |
|--|------------------|------------------|
| <b>Earnings</b>  |                  |                  |
| Profit attributable to ordinary equity holders of the parent,<br>used in the basic and diluted earnings per share calculations | 53,161           | 37,412           |

|   | Number of shares |             |
|---|------------------|-------------|
| <b>Shares</b>   |                  |             |
| Weighted average number of ordinary shares in issue<br>used in the basic earnings per share calculation | 233,544,750      | 234,079,051 |

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 16. PROPERTY, PLANT AND EQUIPMENT

|  | Buildings<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Office<br>and other<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>and yacht<br>HK\$'000 | Land<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------|------------------------------------|--|--|------------------|---|-------------------|
| <b>31 December 2020</b>                                    |                       |                                    |  |  |                  |   |                   |
| 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  | 55,096                | 16,921                             | 6,107  | 13,777                                     | —                | 4,298                                   | 96,199            |
| At 1 January 2020,<br>net of accumulated<br>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<br>the year (note 9)          | (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,<br>net of accumulated<br>depreciation | 52,838                | 19,876                             | 5,960  | 46,168                                     | 26,019           | 12,819                                  | 163,680           |
| 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  | 52,838                | 19,876                             | 5,960  | 46,168                                     | 26,019           | 12,819                                  | 163,680           |

## NOTES TO FINANCIAL STATEMENTS

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## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

|  | Buildings<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Office<br>and other<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------|------------------------------------|--|-------------------------------|---|-------------------|
| <b>31 December 2019</b>                              |                       |                                    |  |                               |   |                   |
| 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                                  | 60,067                | 17,759                             | 7,808  | 14,000                        | 4,373                                   | 104,007           |
| 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 9)       | (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 | 55,096                | 16,921                             | 6,107  | 13,777                        | 4,298                                   | 96,199            |
| At 31 December 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                                  | 55,096                | 16,921                             | 6,107  | 13,777                        | 4,298                                   | 96,199            |

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 24).

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**17. LEASES****The Group as a lessee**

The Group 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 between 1.5 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

**(a) Right-of-use assets**

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

|                        | Leasehold land<br>HK\$'000 | Buildings<br>HK\$'000 | Total<br>HK\$'000 |
|------------------------|----------------------------|-----------------------|-------------------|
| As at 1 January 2020   | 55,708                     | 234                   | 55,942            |
| Additions              | —                          | 3,419                 | 3,419             |
| Depreciation charge    | (1,437)                    | (2,818)               | (4,255)           |
| Exchange realignment   | 3,387                      | (97)                  | 3,290             |
| As at 31 December 2020 | 57,658                     | 738                   | 58,396            |

Certain of the Group's interest-bearing bank borrowings were secured by the Group's leasehold land with a carrying value of HK\$57,218,000 as at 31 December 2020 (2019: HK\$46,499,000) (note 24).

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

**(b) Lease liabilities**

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

|  | 2020<br>HK\$'000 |
|--|------------------|
| Carrying amount at 1 January                     | 234              |
| New leases                                       | 3,419            |
| Accretion of interest recognised during the year | 75               |
| Payments   | (2,693)          |
| Exchange realignment                             | (78)             |
| Carrying amount at 31 December                   | 957              |
| Analysed into:                                   |                  |
| Current portion                                  | 779              |
| Non-current portion                              | 178              |

The maturity analysis of lease liabilities is disclosed in note 24 to the financial statements.

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## 17. LEASES (continued)

## The Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

|   | 2020<br>HK\$'000 |
|---|------------------|
| Interest on lease liabilities   | 75               |
| Depreciation charge of right-of-use assets  | 4,255            |
| Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2020 (included in administrative expenses) | 487              |
| Total amount recognised in profit or loss   | 4,817            |

## 18. INVENTORIES

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

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

## 19. TRADE AND BILLS RECEIVABLES

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

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.

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**19. TRADE AND BILLS RECEIVABLES** *(continued)*

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:

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

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

|                            | <b>2020</b>     | <b>2019</b>     |
|----------------------------|-----------------|-----------------|
|                            | <b>HK\$'000</b> | <b>HK\$'000</b> |
| At beginning of year       | <b>5,854</b>    | 5,148           |
| Impairment losses (note 9) | <b>4,110</b>    | 803             |
| Exchange realignment       | <b>294</b>      | (97)            |
| At end of year             | <b>10,258</b>   | 5,854           |

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.

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### 19. TRADE AND BILLS RECEIVABLES (continued)

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<br>30 days | 31 to<br>60 days | 61 to<br>90 days | Over<br>90 days |        |
| <b>As at 31 December 2020</b>     |                 |                  |                  |                 |        |
| 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 |
| <b>As at 31 December 2019</b>     |                 |                  |                  |                 |        |
| 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  |

### 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|                                | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|--------------------------------|------------------|------------------|
| Non-current prepayments        | 19,245           | 44,010           |
| <b>Current assets</b>          |                  |                  |
| Prepayments                    | 8,320            | 3,280            |
| Deposits and other receivables | 7,780            | 5,229            |
| Less: Impairment allowance     | (2,733)          | (2,573)          |
|                                | 13,367           | 5,936            |

No interest bearing bank borrowings of the Group were secured by the Group's prepayments as at 31 December 2020 (2019: HK\$ Nil) (note 24).

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**21. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS**

|                                       | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Cash and bank balances                | 165,941          | 138,377          |
| Deposits                              |                  |                  |
| Pledged for acceptance bills          | (4,319)          | (3,424)          |
| Cash and cash equivalents             | 161,622          | 134,953          |
| Cash and bank balances denominated in |                  |                  |
| — Renminbi ("RMB")                    | 39,467           | 83,860           |
| — United States dollar ("US\$")       | 114,090          | 47,990           |
| — Japanese yen ("JPY")                | 328              | 290              |
| — Hong Kong dollar ("HK\$")           | 10,572           | 6,227            |
| — Great Britain Pound ("GBP")         | 1                | 10               |
| — Euro ("EUR")                        | 627              | —                |
| — Thai Baht ("THB")                   | 803              | —                |
| — Indian Rupee ("INR")                | 53               | —                |
|                                       | 165,941          | 138,377          |

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 Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Pledged bank deposits represent balances pledged to banks for the Group's acceptance bills.

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

**22. 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<br>HK\$'000 | 2019<br>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              |
|                | 53,273           | 42,329           |

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

## NOTES TO FINANCIAL STATEMENTS

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### 23. OTHER PAYABLES AND ACCRUALS

|                             | Notes | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|-----------------------------|-------|------------------|------------------|
| <b>Current</b>              |       |                  |                  |
| Salary and welfare payables | (a)   | 12,994           | 10,274           |
| Contract liabilities        | (b)   | 6,724            | 9,339            |
| Other payables and accruals | (c)   | 25,803           | 21,647           |
| Due to related parties      | 32(2) | 60,000           | 14,100           |
|                             |       | <b>105,521</b>   | 55,360           |
| <b>Non-current</b>          |       |                  |                  |
| Due to a related party      | 32(2) | 60,000           | —                |

Notes:

- (a) The salary and welfare payables are non-interest-bearing and are payable on demand.
- (b) Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying goods are yet to be provided. The Group recognised the following revenue-related contract liabilities at the end of the year:

|   | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---|------------------|------------------|
| Short-term advances received from customers | 6,724            | 9,339            |

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

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## 24. INTEREST-BEARING BANK AND OTHER BORROWINGS

|   | 2020                             |          |          | 2019                      |          |          |
|---|----------------------------------|----------|----------|---------------------------|----------|----------|
|   | Contractual interest rate        | Maturity | HK\$'000 | Contractual interest rate | Maturity | HK\$'000 |
| <b>Current</b>                                    |                                  |          |          |                           |          |          |
| Lease liabilities (note 17(b))                    | 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   |                           |          | —        |
|   |                                  |          | 68,605   |                           |          | 15,152   |
| <b>Non-current</b>                                |                                  |          |          |                           |          |          |
| Lease liabilities (note 17(b))                    | 1%~5.125%                        | 2022     | 178      | 1%~5.125%                 | 2021     | 82       |
| Long term bank loans – secured                    |                                  |          | —        | Hibor+1.7%                | 2021     | 25,000   |
|   |                                  |          | 178      |                           |          | 25,082   |
|   |                                  |          | 68,783   |                           |          | 40,234   |

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.

|                                      | 2020<br>HK\$'000 | 2019<br>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           |
|                                      | 67,826           | 40,000           |
| Other borrowings repayable:          |                  |                  |
| Within one year or on demand         | 779              | 152              |
| In the second year                   | 178              | 82               |
|                                      | 957              | 234              |

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### 24. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

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:

|                               | Notes | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|-------------------------------|-------|------------------|------------------|
| Property, plant and equipment | 16    | 43,720           | 40,084           |
| Leasehold land                | 17    | 57,218           | 46,499           |
|                               |       | <b>100,938</b>   | 86,583           |

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

The Group has the following undrawn banking facilities:

|                             | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|-----------------------------|------------------|------------------|
| Floating rate               |                  |                  |
| — to expire within one year | 108,640          | 62,973           |

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**25. DEFERRED INCOME**

|                      | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|----------------------|------------------|------------------|
| At 1 January         | 2,014            | 2,276            |
| Amortised as income  | (225)            | (227)            |
| Exchange realignment | 112              | (35)             |
| At 31 December       | 1,901            | 2,014            |
| Current portion      | (238)            | (224)            |
| Non-current portion  | 1,663            | 1,790            |

**26. DEFERRED TAX****Deferred tax assets**

Deferred tax assets have been recognised in respect of temporary differences between the carrying amounts and tax bases of government grants and provisions.

The movements in deferred tax assets are as follows:

|  | Government<br>grants<br>HK\$'000 | Provisions<br>HK\$'000 | Total<br>HK\$'000 |
|--|----------------------------------|------------------------|-------------------|
| At 1 January 2019                      | 341                              | 1,383                  | 1,724             |
| Charged to profit or loss (note 13)    | (30)                             | 505                    | 475               |
| Exchange realignment                   | (9)                              | (30)                   | (39)              |
| At 31 December 2019 and 1 January 2020 | 302                              | 1,858                  | 2,160             |
| Charged to profit or loss (note 13)    | (34)                             | 1,454                  | 1,420             |
| Exchange realignment                   | 17                               | 193                    | 210               |
| At 31 December 2020                    | 285                              | 3,505                  | 3,790             |

The Group has tax losses arising in Hong Kong of HK\$56,660,000 (2019: HK\$38,611,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

## NOTES TO FINANCIAL STATEMENTS

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**26. DEFERRED TAX** (continued)**Deferred tax liabilities**

The movements in deferred tax liabilities are as follows:

|  | <b>Withholding<br/>taxes<br/>HK\$'000</b> |
|--|---|
| At 1 January 2019                      | 1,944                                     |
| Charged to profit or loss (note 13)    | (175)                                     |
| At 31 December 2019 and 1 January 2020 | <b>1,769</b>                              |
| Charged to profit or loss (note 13)    | <b>872</b>                                |
| At 31 December 2020                    | <b>2,641</b>                              |

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2020, the Group has not recognised deferred tax liabilities of HK\$1,043,000 (2019: HK\$5,306,000) in respect of the temporary differences relating to the unremitted profits of the Group's subsidiaries established in Mainland China amounting to HK\$20,865,000 (2019: HK\$106,116,000), that would be payable on the distribution of these profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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**27. SHARE CAPITAL**

The following changes in the Company's authorised and issued share capital took place during the period from 1 January 2019 to 31 December 2020.

|  | Notes | Number of<br>shares in issue | Share capital<br>HK\$'000 |
|--|-------|------------------------------|---------------------------|
| Authorised and issued:                   |       |                              |                           |
| At 1 January 2019                        |       | 1                            | —                         |
| Rights issue                             | (a)   | 234,544,749                  | 2,345                     |
| Shares repurchased and cancelled         | (b)   | (1,000,000)                  | (10)                      |
| At 31 December 2019 and 31 December 2020 |       | <b>233,544,750</b>           | <b>2,335</b>              |

- (a) Pursuant to the written resolutions of the sole shareholder passed on 15 May 2019, the Company entered into a sale and purchase agreement with Euro Asia Investment Global Limited, whereby the Company agrees to allot and issue one new share to China Aluminum Cans Holdings Limited ("China Aluminum Cans"), in consideration of acquiring two shares of Topspan Holdings Limited ("Topspan"), representing 0.02% of entire issued shares of Topspan, and pursuant to the written resolutions of the sole shareholder passed on 14 June 2019, the Company issued 234,544,749 shares to China Aluminum Cans in consideration of HK\$ 0.1 each.

On 20 June 2019, all issued shares were distributed to original shareholders of China Aluminum Cans by way of one share for every four shares of China Aluminum Cans held.

- (b) The Company purchased 1,000,000 of its shares on the Hong Kong Stock Exchange for a total consideration of HK\$1,802,000 which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. The purchased shares were cancelled during the year and the total amount paid for the purchase of the shares of HK\$1,795,000 has been charged to retained profits of the Company.

## NOTES TO FINANCIAL STATEMENTS

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### 28. SHARE OPTION SCHEME

The Company adopted a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), approved by the written resolutions of the shareholders on 17 May 2019 (the "Resolutions").

#### Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was effective on 21 June 2019 after all conditions have been fulfilled.

The purpose of the Pre-IPO Share Option Scheme is to recognise and motivate the contributions that certain executive and non-executive Directors, members of senior management and other employees have made or may make to the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by the Resolutions, are substantially the same as the terms of the Share Option Scheme, except that:

- (a) the subscription price per share under the Pre-IPO Share Option Scheme is HK\$2.17;
- (b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 7,765,000, representing approximately 3.3% of the total issued share capital of the Company immediately after the completion of the listing;
- (c) save for the share options which have been granted, no further share options will be granted under the Pre-IPO Share Option Scheme on or after 21 June 2019 (the "Listing Date"); and

The share options granted under the Pre-IPO Share Option Scheme are subject to the following vesting and exercise period:

- Batch 1 50% of the share options shall become vested and exercisable on the 1st anniversary date of the Listing Date (the "1st Vesting Date"), and the exercise period in respect thereof shall commence on the 1st Vesting Date and end on the day immediately before the 10th anniversary date of the offer date (the "Expiration Date") (both dates inclusive).
- Batch 2 50% of the share options shall become vested and exercisable on the 2nd anniversary date of the Listing Date (the "2nd Vesting Date"), and the exercise period in respect thereof shall commence on the 2nd Vesting Date and end on the Expiration Date (both dates inclusive).

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**28. SHARE OPTION SCHEME** *(continued)***Pre-IPO Share Option Scheme** *(continued)*

A summary of option movements during the period is presented below:

|                             | Year ended 31 December 2020                    |                   |
|-----------------------------|--|-------------------|
|                             | Weighted average exercise price HK\$ per share | Number of options |
| At 1 January 2020           | 2.17   | 7,615,000         |
| Forfeited during the period | 2.17   | (135,000)         |
| At 31 December 2020         | 2.17   | 7,480,000         |

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated at approximately HK\$6,023,000, of which the Group recognised a share option expense of HK\$2,816,000 during 2020 (2019: HK\$2,306,000) and reversed a share option expense of HK\$33,000 during 2020 (2019: Nil) because of the resignation of a senior staff during the year ended 31 December 2020.

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated as at the date of grant, using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

|   | Batch 1 | Batch 2 |
|---|---------|---------|
| Dividend yield (%)                            | —       | —       |
| Expected volatility (%)                       | 36.545% | 36.545% |
| Risk-free interest rate (%)                   | 1.946%  | 1.946%  |
| Expected life of options (year)               | 10      | 10      |
| Weighted average share price (HK\$ per share) | 2.17    | 2.17    |

The expected life of the share options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may not necessarily reflect the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

No share option was exercised during the period. As at 31 December 2020, the Company had 7,480,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,480,000 additional ordinary shares of the Company and additional share capital of HK\$75,000 and share premium of HK\$7,405,000.

At the date of approval of these financial statements, the Company had 7,380,000 share options outstanding under the Scheme, which represented approximately 3.16% of the Company's shares in issue as at that date.

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### 28. SHARE OPTION SCHEME *(continued)*

#### **Share Option Scheme**

The Company operates a share option scheme (the "Share Option Scheme") for the purposes of: (a) motivating the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (b) attracting and retaining, or otherwise maintaining ongoing business relationships with the eligible participants whose contributions are, will or expected to be beneficial to the Group.

The board of directors (the "Board") may at its discretion grant options to eligible participants ("Eligible Participants") as follows:

- (i) any eligible employee ("Eligible Employee") means any employees (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any subsidiary or any entity in which the Group holds at least 20% of its issued share capital ("Invested Entity");
- (ii) any non-executive director (including independent non-executive directors) of the Company, any subsidiary or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of any member of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.

For the purposes of the Share Option Scheme, share options may be granted to any company wholly owned by one or more Eligible Participants.

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### 28. SHARE OPTION SCHEME *(continued)*

#### Share Option Scheme *(continued)*

The exercise price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the exercise price shall be at least the highest of: (a) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the offer date, which must be a business day; (b) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (c) the nominal value of a share.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options.

The maximum number of shares to be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share options granted and yet to be exercised under any other scheme of the Company shall not, in aggregate, exceed 10% of the total number of shares in issue on the Listing Date, i.e., 23,454,475 shares, and 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under share options to any Eligible Participant in the Share Option Scheme within any 12-month period up to and including the date of the grant is limited to 1% in aggregate of the shares of the Company in issue at the date of the grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or a substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors, excluding the independent non-executive director who or whose associates are the grantee. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5,000,000, within any 12-month period up to and including the date of the grant, are subject to shareholders' approval in advance in a general meeting.

The Share Option Scheme became effective on 21 June 2019 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

As at 31 December 2020 and the date of approval of these financial statements, no share option was granted and outstanding under the Share Option Scheme.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 29. RESERVES

- (i) The amounts of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity on pages 69 to 70 of the financial statements.
- (ii) In accordance with PRC Company Law, the PRC subsidiary of the Group is required to allocate 10% of its profit after tax to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the PRC subsidiary. Subject to certain restrictions set out in PRC Company Law, part of the SSR may be converted to increase paid-up capital/issued capital of the PRC subsidiary, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital. The SSR of the PRC subsidiary attributable to the parent amounted to HK\$50,375,000 and HK\$47,905,000 as at 31 December 2020 and 2019, respectively.
- (iii) On 29 December 2020, China Medical Beauty acquired 30% equity interest in Euro Asia Aerosol at a cash consideration of HK\$120,000,000. As a result, the equity interest of the China Medical Beauty in Euro Asia Aerosol increased from 70% to 100%. The change in the Group's shareholding interest in Euro Asia Aerosol resulted in a decrease in other reserve of HK\$107,016,000 and a decrease in non-controlling interests of HK\$12,984,000 in the consolidated statement of changes in equity.

### 30. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

|                                   | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| Contracted, but not provided for: |                  |                  |
| Plant and machinery               | 5,912            | 218              |

### 31. CONTINGENT LIABILITIES

The Group had no significant contingent liability as at 31 December 2020 and 2019.

**NOTES TO FINANCIAL STATEMENTS**

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**32. RELATED PARTY TRANSACTIONS**

- (1) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

|   | Notes      | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---|------------|------------------|------------------|
| <b>Sales of products to:</b>  |            |                  |                  |
| Euro Asia Packaging (Guangdong) Co., Ltd.<br>(廣東歐亞包裝有限公司) ("Euro Asia Packaging") | (i), (iv)  | 393              | 2                |
| <b>Purchases of products from:</b>  |            |                  |                  |
| Euro Asia Packaging   | (i)        | 26,368           | 12,757           |
| Hong Kong Aluminum Cans Limited<br>(“Hong Kong Aluminum Cans”)                    | (i)        | 9,929            | 851              |
| Total   |            | 36,297           | 13,608           |
| <b>Lease rental expenses charged by:</b>  |            |                  |                  |
| Mr. Lin Wan Tsang*  | (ii), (iv) | 65               | 34               |
| <b>Acquisition of non-controlling interest of a subsidiary:</b>                   |            |                  |                  |
| European Asia Industrial Limited<br>(“European Asia”)                             | (iii)      | 120,000          | —                |

\* Ultimate shareholder of the Company

Notes:

- (i) All companies are fellow subsidiaries controlled by the ultimate shareholder of the Company. The sales and purchases among the companies were made according to prices and conditions as mutually agreed.
- (ii) The lease rental expenses charged by Mr. Lin Wan Tsang were determined based on the underlying contracts as agreed between the Group and Mr. Lin Wan Tsang.
- (iii) On 29 December 2020, China Medical Beauty acquired 30% equity interest in Euro Asia Aerosol at a cash consideration of HK\$120,000,000. As a result, the equity interest of the China Medical Beauty in Euro Asia Aerosol increased from 70% to 100%. The change in the Group's shareholding interest in Euro Asia Aerosol resulted in a decrease in other reserve of HK\$107,016,000 and a decrease in non-controlling interests of HK\$12,984,000 in the consolidated statement of changes in equity. As at 31 December 2020, the payable due to European Asia was HK\$120,000,000. According to the agreement of the China Medical Beauty and European Asia, HK\$60,000,000 will be settled in each of 2021 and 2022.
- (iv) These continuing connected transactions fall within the de minimis threshold under Rule 14A.76(1) of the Listing Rules and therefore is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements contemplated under the Listing Rules.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 32. RELATED PARTY TRANSACTIONS (continued)

(2) Balances with related parties

|                           | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---------------------------|------------------|------------------|
| <b>Due to:</b>            |                  |                  |
| Euro Asia Packaging**     | 366              | 1,191            |
| Hong Kong Aluminum Cans** | —                | 385              |
| European Asia****         | 120,000          | —                |
| Mr. Lin Wan Tsang***      | —                | 14,100           |
|                           | <b>120,366</b>   | 15,676           |

\*\* Included in "Trade and bills payables" in the consolidated statement of financial position

\*\*\* Included in "Other payables and accruals" in the consolidated statement of financial position

\*\*\*\* Included in "Other payables and accruals" and "Due to a related party" in the consolidated statement of financial position

The amount due to European Asia is the payment for the purchase of 30% equity interest in Euro Asia Aerosol. As at 31 December 2020, the payable due to European Asia was HK\$120,000,000. According to the agreement of the China Medical Beauty and European Asia, HK\$60,000,000 will be settled in each of 2021 and 2022.

(3) Compensation of key management personnel of the Group, including Directors' remuneration as detailed in note 11 above, is as follows:

|   | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---|------------------|------------------|
| <b>Fees</b>   | <b>3,426</b>     | 1,457            |
| Salaries, allowances and benefits in kind           | 2,604            | 1,608            |
| Pension scheme contributions                        | 137              | 87               |
| Equity-settled share option expense                 | 1,397            | 1,128            |
| Total compensation paid to key management personnel | <b>7,564</b>     | 4,280            |

The related party transactions in respect of (1) above also constitute connected transactions as defined in Chapter 14A of the Listing Rules, and are in compliance with the Listing Rules.

**NOTES TO FINANCIAL STATEMENTS**

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**33. 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:

|  | 2020                              |                   | 2019                              |                   |
|--|-----------------------------------|-------------------|-----------------------------------|-------------------|
|  | Loans and receivables<br>HK\$'000 | Total<br>HK\$'000 | Loans and receivables<br>HK\$'000 | Total<br>HK\$'000 |
| <b>Financial assets</b>  |                                   |                   |                                   |                   |
| Trade and bills receivables  | 40,482                            | 40,482            | 30,294                            | 30,294            |
| Financial assets included in prepayments, deposits and other receivables | 5,047                             | 5,047             | 2,656                             | 2,656             |
| Pledged bank deposits  | 4,319                             | 4,319             | 3,424                             | 3,424             |
| Cash and cash equivalents  | 161,622                           | 161,622           | 134,953                           | 134,953           |
|  | <b>211,470</b>                    | <b>211,470</b>    | 171,327                           | 171,327           |

|   | 2020  |                   | 2019  |                   |
|---|---|-------------------|---|-------------------|
|   | Financial liabilities at amortised cost<br>HK\$'000 | Total<br>HK\$'000 | Financial liabilities at amortised cost<br>HK\$'000 | Total<br>HK\$'000 |
| <b>Financial liabilities</b>                                  |   |                   |   |                   |
| Trade and bills payables                                      | 53,273  | 53,273            | 42,329  | 42,329            |
| Due to related parties  | 120,000   | 120,000           | 14,100  | 14,100            |
| Financial liabilities included in other payables and accruals | 25,803  | 25,803            | 21,647  | 21,647            |
| Interest-bearing bank and other borrowings                    | 68,783  | 68,783            | 40,234  | 40,234            |
|   | <b>267,859</b>                                      | <b>267,859</b>    | 118,310   | 118,310           |

## NOTES TO FINANCIAL STATEMENTS

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### 34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

At 31 December 2020 and 2019, the fair values of the Group's financial assets and financial liabilities approximated to their respective carrying amounts.

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

The Group'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. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, 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 chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

#### Interest rate risk

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

The contractual interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are set out in note 24 above.

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**35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *(continued)***Interest rate risk** *(continued)*

The following table demonstrates the sensitivity to a reasonably possible change in the PBOC base rate and the Hong Kong Interbank Rate, with all other variables held constant, of the Group's profit before tax (through the impact of floating rate borrowings) during the year.

|                                      | <b>Increase/<br/>(decrease)<br/>in basis points</b> | <b>Increase/<br/>(decrease)<br/>in profit<br/>before tax<br/>HK\$'000</b> |
|--------------------------------------|---|---|
| <b><u>As at 31 December 2020</u></b> |   |   |
| PBOC base rate                       | <b>25</b>   | <b>48</b>   |
| Hong Kong Interbank Rate             | <b>25</b>   | <b>38</b>   |
| PBOC base rate                       | <b>(25)</b>   | <b>(48)</b>   |
| Hong Kong Interbank Rate             | <b>(25)</b>   | <b>(38)</b>   |
| <b><u>As at 31 December 2019</u></b> |   |   |
| Hong Kong Interbank Rate             | 25  | 63  |
| Hong Kong Interbank Rate             | (25)  | (63)  |

**Foreign currency risk**

The Group has transactional currency exposures. These exposures arise from sales in currencies other than the units' functional currencies. Approximately 36% and 31% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 99% and 99% of inventory costs were denominated in the units' functional currencies for the years ended 31 December 2020 and 2019, respectively.

## NOTES TO FINANCIAL STATEMENTS

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## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Foreign currency risk** (continued)

The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in the US\$ exchange rate and HK\$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

|                                 | Increase/<br>(decrease)<br>in exchange rate<br>% | Increase/<br>(decrease)<br>in profit<br>before tax<br>HK\$'000 | Increase/<br>(decrease)<br>in equity<br>HK\$'000 |
|---------------------------------|--|--|--|
| <b>As at 31 December 2020</b>   |  |  |  |
| If RMB weakens against US\$     | 5  | 34,379   | 26,790   |
| If RMB strengthens against US\$ | (5)  | (34,379)   | (26,790)   |
| If RMB weakens against HK\$     | 5  | —  | (17,919)   |
| If RMB strengthens against HK\$ | (5)  | —  | 17,919   |
| <br>                            |  |  |  |
| <u>As at 31 December 2019</u>   |  |  |  |
| If RMB weakens against US\$     | 5  | 3,251  | 334  |
| If RMB strengthens against US\$ | (5)  | (3,251)  | (334)  |
| If RMB weakens against HK\$     | 5  | —  | (19,936)   |
| If RMB strengthens against HK\$ | (5)  | —  | 19,936   |

**Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group'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 Group's exposure to bad debts is not significant.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Credit risk** (continued)

## Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are net carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

**As at 31 December 2020**

|  | 12-month ECLs       |                     | Lifetime ECLs       |                                    | Total<br>HK\$'000 |
|--|---------------------|---------------------|---------------------|------------------------------------|-------------------|
|  | Stage 1<br>HK\$'000 | Stage 2<br>HK\$'000 | Stage 3<br>HK\$'000 | Simplified<br>approach<br>HK\$'000 |                   |
| Trade and bills receivables*   | —                   | —                   | —                   | 50,740                             | 50,740            |
| Financial assets included in prepayments,<br>deposit and other receivables |                     |                     |                     |                                    |                   |
| – Normal**   | 5,047               | —                   | —                   | —                                  | 5,047             |
| – Doubtful**   | —                   | —                   | 2,733               | —                                  | 2,733             |
| Pledged bank deposits  |                     |                     |                     |                                    |                   |
| – Not yet past due   | 4,319               | —                   | —                   | —                                  | 4,319             |
| Cash and cash equivalents  |                     |                     |                     |                                    |                   |
| – Not yet past due   | 161,622             | —                   | —                   | —                                  | 161,622           |
|  | <b>170,988</b>      | <b>—</b>            | <b>2,733</b>        | <b>50,740</b>                      | <b>224,461</b>    |

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### Credit risk *(continued)*

Maximum exposure and year-end staging *(continued)*

As at 31 December 2019

|  | 12-month ECLs       |                     | Lifetime ECLs       |                                 | Total HK\$'000 |
|--|---------------------|---------------------|---------------------|---------------------------------|----------------|
|  | Stage 1<br>HK\$'000 | Stage 2<br>HK\$'000 | Stage 3<br>HK\$'000 | Simplified approach<br>HK\$'000 |                |
| Trade and bills receivables*   | —                   | —                   | —                   | 36,148                          | 36,148         |
| Financial assets included in prepayments,<br>deposit and other receivables |                     |                     |                     |                                 |                |
| – Normal**   | 2,656               | —                   | —                   | —                               | 2,656          |
| – Doubtful**   | —                   | —                   | 2,573               | —                               | 2,573          |
| Pledged bank deposits  |                     |                     |                     |                                 |                |
| – Not yet past due   | 3,424               | —                   | —                   | —                               | 3,424          |
| Cash and cash equivalents  |                     |                     |                     |                                 |                |
| – Not yet past due   | 134,953             | —                   | —                   | —                               | 134,953        |
|  | 141,033             | —                   | 2,573               | 36,148                          | 179,754        |

\* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

\*\* The credit quality of the financial assets included in prepayments, deposit and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 19 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed.

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**35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *(continued)***Liquidity risk**

The Group'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 2020 and 2019, based on the contractual undiscounted payments, was as follows:

|  | <b>As at 31 December 2020</b> |  |                                 |                           |
|--|-------------------------------|--|---------------------------------|---------------------------|
|  | <b>On demand<br/>HK\$'000</b> | <b>Less than<br/>1 year<br/>HK\$'000</b> | <b>Over 1 year<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
| Trade and bills payables                                       | 1,136                         | 52,137                                   | —                               | 53,273                    |
| Financial liabilities included in other payables and accruals  | —                             | 25,803                                   | —                               | 25,803                    |
| Due to a related party   | —                             | 60,000                                   | 60,000                          | 120,000                   |
| Lease liabilities  | —                             | 779                                      | 178                             | 957                       |
| Interest-bearing bank borrowings (excluding lease liabilities) | —                             | 68,235                                   | —                               | 68,235                    |
|  | <b>1,136</b>                  | <b>206,954</b>                           | <b>60,178</b>                   | <b>268,268</b>            |

|  | <b>As at 31 December 2019</b> |  |                                 |                           |
|--|-------------------------------|--|---------------------------------|---------------------------|
|  | <b>On demand<br/>HK\$'000</b> | <b>Less than<br/>1 year<br/>HK\$'000</b> | <b>Over 1 year<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
| Trade and bills payables                                       | 596                           | 41,733                                   | —                               | 42,329                    |
| Financial liabilities included in other payables and accruals  | —                             | 21,647                                   | —                               | 21,647                    |
| Due to a related party   | 14,100                        | —  | —                               | 14,100                    |
| Lease liabilities  | —                             | 152                                      | 82                              | 234                       |
| Interest-bearing bank borrowings (excluding lease liabilities) | —                             | 16,187                                   | 25,176                          | 41,363                    |
|  | <b>14,696</b>                 | <b>79,719</b>                            | <b>25,258</b>                   | <b>119,673</b>            |

## NOTES TO FINANCIAL STATEMENTS

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35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)***Capital management**

The primary objectives of the Group's capital management are to safeguard the Group'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 Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group 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 2020 and 2019.

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

|   | 2020<br>HK\$'000 | 2019<br>HK\$'000 |
|---|------------------|------------------|
| Interest-bearing bank and other borrowings                    | 68,783           | 40,234           |
| Trade and bills payables                                      | 53,273           | 42,329           |
| Financial liabilities included in other payables and accruals | 25,803           | 21,647           |
| Due to related parties  | 120,000          | 14,100           |
| Less: Cash and cash equivalents and pledged bank deposits     | <b>(165,941)</b> | (138,377)        |
| Net debt  | <b>101,918</b>   | (20,067)         |
| Equity attributable to owners of the parent                   | <b>223,485</b>   | 273,139          |
| Capital and net debt  | <b>325,403</b>   | 253,072          |
| Gearing ratio   | <b>31%</b>       | (8%)             |

**NOTES TO FINANCIAL STATEMENTS**

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**36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY**

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

|   | <b>31 December<br/>2020<br/>HK\$'000</b> | <b>31 December<br/>2019<br/>HK\$'000</b> |
|---|--|--|
| <b>NON-CURRENT ASSETS</b>               |  |  |
| Right-of-use asset                      | —  | 63                                       |
| Investments in subsidiaries             | <b>5,200</b>                             | 2,384                                    |
| <b>Total non-current assets</b>         | <b>5,200</b>                             | 2,447                                    |
| <b>CURRENT ASSETS</b>                   |  |  |
| Prepayments                             | <b>4,224</b>                             | 14,240                                   |
| Cash and cash equivalents               | <b>115</b>                               | 161                                      |
| <b>Total current assets</b>             | <b>4,339</b>                             | 14,401                                   |
| <b>CURRENT LIABILITIES</b>              |  |  |
| Interest-bearing borrowings             | —  | 63                                       |
| Other payables                          | <b>5,457</b>                             | —  |
| <b>Total current liabilities</b>        | <b>5,457</b>                             | 63                                       |
| <b>NET CURRENT (LIABILITIES)/ASSETS</b> | <b>(1,118)</b>                           | 14,338                                   |
| <b>Net assets</b>                       | <b>4,082</b>                             | 16,785                                   |
| <b>EQUITY</b>                           |  |  |
| Issued capital                          | <b>2,335</b>                             | 2,335                                    |
| Reserves (note)                         | <b>1,747</b>                             | 14,450                                   |
| <b>Total equity</b>                     | <b>4,082</b>                             | 16,785                                   |

Ko Sau Mee  
DirectorLin Hing Lei  
Director

## NOTES TO FINANCIAL STATEMENTS

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### 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

|  | Share premium<br>account<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Share option<br>reserve<br>HK\$'000 | Total<br>HK\$'000 |
|--|--------------------------------------|-----------------------------------|-------------------------------------|-------------------|
| At 1 January 2020                        | 17,825                               | (5,681)                           | 2,306                               | 14,450            |
| Total comprehensive loss for the year    | —                                    | (5,125)                           | —                                   | (5,125)           |
| Equity-settled share option arrangements | —                                    | —                                 | 2,816                               | 2,816             |
| Dividends paid                           | (10,394)                             | —                                 | —                                   | (10,394)          |
| As at 31 December 2020                   | 7,431                                | (10,806)                          | 5,122                               | 1,747             |

|  | Share premium<br>account<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Share option<br>reserve<br>HK\$'000 | Total<br>HK\$'000 |
|--|--------------------------------------|-----------------------------------|-------------------------------------|-------------------|
| At 1 January 2019                        | —                                    | (7)                               | —                                   | (7)               |
| Total comprehensive loss for the year    | —                                    | (3,879)                           | —                                   | (3,879)           |
| Issue of share capital                   | 21,109                               | —                                 | —                                   | 21,109            |
| Shares repurchased                       | —                                    | (1,795)                           | —                                   | (1,795)           |
| Equity-settled share option arrangements | —                                    | —                                 | 2,306                               | 2,306             |
| Dividends paid                           | (3,284)                              | —                                 | —                                   | (3,284)           |
| As at 31 December 2019                   | 17,825                               | (5,681)                           | 2,306                               | 14,450            |

### 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2021.

## FINANCIAL SUMMARY

A summary of the results and the assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows.

### RESULTS

|                           | Year ended 31 December |                  |                  |                  |                  |
|---------------------------|------------------------|------------------|------------------|------------------|------------------|
|                           | 2020<br>HK\$'000       | 2019<br>HK\$'000 | 2018<br>HK\$'000 | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
| Revenue                   | <b>665,651</b>         | 561,535          | 610,864          | 518,381          | 526,855          |
| Profit before tax         | <b>93,253</b>          | 50,734           | 61,592           | 50,376           | 92,673           |
| Income tax expenses       | <b>(29,617)</b>        | (12,620)         | (14,664)         | (9,398)          | (22,164)         |
| Profit for the year       | <b>63,636</b>          | 38,114           | 46,928           | 40,978           | 70,509           |
| Profit attributable to:   |                        |                  |                  |                  |                  |
| Owners of the Company     | <b>53,161</b>          | 37,412           | 41,686           | 39,210           | 69,368           |
| Non-controlling interests | <b>10,475</b>          | 702              | 5,242            | 1,768            | 1,141            |
|                           | <b>63,636</b>          | 38,114           | 46,928           | 40,978           | 70,509           |

### ASSETS AND LIABILITIES

|   | As at 31 December |                  |                  |                  |                  |
|---|-------------------|------------------|------------------|------------------|------------------|
|   | 2020<br>HK\$'000  | 2019<br>HK\$'000 | 2018<br>HK\$'000 | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
| Total assets                                    | <b>521,275</b>    | 422,075          | 420,661          | 402,912          | 382,519          |
| Total liabilities                               | <b>295,551</b>    | 144,428          | 192,225          | 131,012          | 160,529          |
|   | <b>225,724</b>    | 277,647          | 228,436          | 271,900          | 221,990          |
| Equity  |                   |                  |                  |                  |                  |
| Equity attributable to owners<br>of the Company | <b>225,820</b>    | 275,474          | 220,803          | 268,786          | 211,832          |
| Non-controlling interests                       | <b>(96)</b>       | 2,173            | 7,633            | 3,114            | 10,158           |
|   | <b>225,724</b>    | 277,647          | 228,436          | 271,900          | 221,990          |