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PERFECT GROUP

保發集團

PERFECT GROUP INTERNATIONAL HOLDINGS LIMITED

保發集團國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3326)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

The board (the “**Board**”) of directors (the “**Directors**”) of Perfect Group International Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020 together with comparative figures for the corresponding period in 2019 as follows:

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

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	261,316	302,350
Cost of goods sold		(145,647)	(204,595)
Gross profit		115,669	97,755
Other income		5,513	4,170
Impairment loss recognised on trade receivables		(8,473)	(425)
Other gains and losses		(759)	16,119
Selling and distribution costs		(3,559)	(8,598)
General and administrative expenses		(21,115)	(26,995)
Finance costs		(594)	(1,567)
Share of result of an associate		(84)	(54)
Profit before taxation	4	86,598	80,405
Taxation	5	(39,736)	(22,701)
Profit for the period		46,862	57,704

		Six months ended 30 June	
		2020	2019
	<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Other comprehensive income (expense) for the period			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment upon transfer to investment properties			
— Surplus on revaluation		7,521	7,602
— Deferred taxation		(1,892)	(1,953)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(1,040)	(952)
Other comprehensive income for the period		4,589	4,697
Total comprehensive income for the period		51,451	62,401
Profit (loss) for the period attributable to:			
Owners of the Company		46,897	45,398
Non-controlling interests		(35)	12,306
		46,862	57,704
Total comprehensive income (expense) attributable to:			
Owners of the Company		51,486	48,625
Non-controlling interests		(35)	13,776
		51,451	62,401
Earnings per share	7		
– Basic		3.47 HK cents	3.36 HK cents
– Diluted		3.47 HK cents	3.36 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

		At 30 June 2020	At 31 December 2019
	<i>NOTES</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		98,115	110,338
Investment properties		139,125	119,905
Right-of-use assets		20,820	26,728
Rental deposits		273	273
Interest in an associate		798	888
Deferred tax assets		379	353
		<u>259,510</u>	<u>258,485</u>
Current assets			
Inventories		183,173	186,383
Properties held for sale		206,571	322,849
Trade and other receivables	8	65,095	130,893
Loan receivable from an associate		—	17,328
Bank balances and cash		103,792	173,781
		<u>558,631</u>	<u>831,234</u>
Current liabilities			
Trade and other payables	9	77,191	127,837
Contract liabilities		89,250	258,884
Lease liabilities		6,888	8,129
Taxation payable		40,489	64,577
Government grants		54	—
Bank loans – amount due within one year		—	49,259
		<u>213,872</u>	<u>508,686</u>
Net current assets		<u>344,759</u>	<u>322,548</u>
Total assets less current liabilities		<u>604,269</u>	<u>581,033</u>

		At 30 June 2020 <i>HK\$'000</i> (Unaudited)	At 31 December 2019 <i>HK\$'000</i> (Audited)
Non-current liabilities			
Provision for long service payments		898	898
Deferred tax liabilities		14,960	13,293
Lease liabilities		4,546	7,428
		<u>20,404</u>	<u>21,619</u>
Net assets		<u>583,865</u>	<u>559,414</u>
Share capital and reserves			
Share capital	<i>10</i>	4,500	4,500
Reserves		579,335	554,849
Equity attributable to owners of the Company		583,835	559,349
Non-controlling interests		30	65
		<u>583,865</u>	<u>559,414</u>

NOTES:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties which are measured at fair values.

Other than changes in accounting policies resulting from application of the amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “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, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents amounts received and receivable for the sales of fine jewellery products net of discounts and returns and sales of properties during both periods.

Manufacturing and sales of jewellery products (revenue recognised at a point in time)

For manufacturing and sales of jewellery products to the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler’s specific location (upon delivery of goods).

Property development (revenue recognised at a point in time)

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are not based on customer’s specifications. Revenue from property development is therefore recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable.

Information reported to the executive directors of the Company, being the chief operating decision maker (“**CODM**”), for the purposes of resource allocation and assessment of segment performance focuses on the revenues and profits from different types of business divisions.

The Group's operating and reportable segments under HKFRS 8 are as follows:

- (i) Manufacturing and sales of jewellery products business represents manufacturing and sales of jewellery products including rings, earrings, pendants, bangles, necklaces and bracelets (“**Manufacturing and sales of jewellery products**”).
- (ii) Property development business represents the development and sales of properties for the Group's integrated and comprehensive industry park project (“**Property development**”).

(a) Segment revenue and results

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

For the six months ended 30 June 2020 (unaudited)

	Manufacturing and sales of jewellery products	Property development	Consolidated
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Segment revenue			
External sales	<u>57,578</u>	<u>203,738</u>	<u>261,316</u>
Segment results	<u>1,765</u>	<u>88,264</u>	90,029
Unallocated corporate income			2,017
Unallocated corporate expenses			(5,094)
Finance costs			(270)
Share of result of an associate			<u>(84)</u>
Profit before taxation			<u><u>86,598</u></u>

For the six months ended 30 June 2019 (unaudited)

	Manufacturing and sales of jewellery products	Property development	Consolidated
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Segment revenue			
External sales	<u>172,867</u>	<u>129,483</u>	<u>302,350</u>
Segment results	<u>25,497</u>	<u>46,666</u>	72,163
Unallocated corporate income			15,761
Unallocated corporate expenses			(6,435)
Finance costs			(1,030)
Share of result of an associate			<u>(54)</u>
Profit before taxation			<u>80,405</u>

Segment results represent the profit earned by each segment and is arrived at without allocation of certain income and expenses (including other income, other gains and losses, general and administrative expenses, finance costs and share of result of an associate). This is the measure reported to the CODM of the Company, for the purposes of resources allocation and assessment of segment performance.

(b) Segment assets and liabilities

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

At 30 June 2020 (unaudited)

	Manufacturing and sales of jewellery products	Property development	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Segment assets	289,473	384,786	674,259
Interest in an associate			798
Deferred tax assets			379
Unallocated corporate assets			142,705
Consolidated total assets			818,141
Liabilities			
Segment liabilities	42,705	135,115	177,820
Taxation payable			40,489
Deferred tax liabilities			14,960
Unallocated corporate liabilities			1,007
Consolidated total liabilities			234,276

At 31 December 2019 (audited)

	Manufacturing and sales of jewellery products	Property development	Consolidated
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Assets			
Segment assets	348,879	615,680	964,559
Interest in an associate			888
Deferred tax assets			353
Unallocated corporate assets			<u>123,919</u>
Consolidated total assets			<u><u>1,089,719</u></u>
Liabilities			
Segment liabilities	61,302	390,295	451,597
Taxation payable			64,577
Deferred tax liabilities			13,293
Unallocated corporate liabilities			<u>838</u>
Consolidated total liabilities			<u><u>530,305</u></u>

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

- all assets are allocated to operating segments other than deferred tax assets, interest in an associate and unallocated corporate assets.
- all liabilities are allocated to operating segments other than taxation payable, deferred tax liabilities and unallocated corporate liabilities.

Revenue from external customers, based on location of delivery to customers is as follows:

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue		
– Hong Kong	31,861	112,651
– Dubai	22,219	60,058
– The PRC	207,236	129,641
	<u>261,316</u>	<u>302,350</u>

An analysis of the Group's non-current assets (other than deferred tax assets and interest in an associate) by their physical geographical location is as follows:

	At	At
	30 June	31 December
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Hong Kong	6,255	544
The PRC	251,782	256,539
Dubai	296	161
	<u>258,333</u>	<u>257,244</u>

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment included in:		
– cost of goods sold	105	131
– general and administrative expenses	1,360	1,858
– selling and distribution costs	12	12
	<hr/> 1,477	<hr/> 2,001
Depreciation of right-of-use-assets	4,100	3,986
	<hr/> 5,577	<hr/> 5,987
Total depreciation		
Directors' remuneration		
– fee	1,124	1,256
– salaries and other benefits	2,425	2,818
– equity-settled share-based payment	—	287
– retirement benefit scheme contributions	27	27
	<hr/> 3,576	<hr/> 4,388
Other staff's salaries and other benefits	7,003	11,133
Other staff's retirement benefits scheme contributions	191	629
Other staff's equity-settled share-based payment	—	1,116
	<hr/> 10,770	<hr/> 17,266
Total staff costs		
Auditor's remuneration	600	600
Cost of inventories recognised as expenses (included in cost of goods sold)	145,647	204,595
	<hr/> 145,647	<hr/> 204,595

5. TAXATION

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The taxation charge comprises:		
PRC Enterprise Income Tax (“EIT”)		
– Current period	25,433	9,735
PRC Land Appreciation Tax (“LAT”)	14,495	7,883
Hong Kong Profits Tax		
– Current period	—	1,270
	<u>39,928</u>	<u>18,888</u>
Deferred tax (credit) charge	<u>(192)</u>	<u>3,813</u>
	<u><u>39,736</u></u>	<u><u>22,701</u></u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Group is engaged in manufacturing of fine jewellery products through processing factories in the PRC under contract processing arrangement. Accordingly, under such 50:50 onshore/offshore arrangement between the Group and the processing factories, certain profits of the Group are not taxable under Hong Kong Profits Tax during both periods. In addition, the processing factories of the Group is subject to the PRC EIT at a rate of 25% on the deemed profit generated in the PRC.

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

The provision of LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been levied at progressive rates ranging from 30% to 60% on the appreciation of land value, represented by the excess of sales proceeds of properties over prescribed direct costs. Prescribed direct costs are defined to include costs of land, development and construction costs, as well as certain costs relating to the property development. According to the State Administration of Taxation's official circulars, LAT shall be payable provisionally upon sales of the properties, followed by final ascertainment of the gain at the completion of the properties development.

6. DIVIDEND

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period		
Final dividend for 2019 of HK\$0.02 (2018: HK\$0.01) per share	27,000	13,500
Special dividend for 2018 of HK\$0.02 (2019: nil) per share	—	27,000
	<u>27,000</u>	<u>40,500</u>

The directors of the Company had not declared any interim dividend for the period ended 30 June 2020 (for the six months ended 30 June 2019: interim dividend of HK\$0.01 per share).

7. EARNINGS PER SHARE

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

	At	At
	30 June	30 June
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company and earnings for the purposes of calculating basic and diluted earnings per share	<u>46,897</u>	<u>45,398</u>

	<u>Number of shares</u>	
	<u>'000</u>	<u>'000</u>
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	<u>1,350,000</u>	<u>1,350,000</u>

The computation of diluted earnings per share for the both periods does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price of the shares for both periods.

8. TRADE AND OTHER RECEIVABLES

	At 30 June 2020 <i>HK\$'000</i> (Unaudited)	At 31 December 2019 <i>HK\$'000</i> (Audited)
Trade receivables	55,892	94,259
Less: Allowance for expected credit losses	<u>(10,190)</u>	<u>(1,717)</u>
	45,702	92,542
Other receivables, prepayments and deposits	<u>19,393</u>	<u>38,351</u>
	<u>65,095</u>	<u>130,893</u>

The following is an analysis of trade receivables by age, net of allowance for expected credit losses, presented based on the invoice date, which approximates the respective revenue recognition date.

	At 30 June 2020 <i>HK\$'000</i> (Unaudited)	At 31 December 2019 <i>HK\$'000</i> (Audited)
0–30 days	11,017	38,575
31–60 days	1,839	16,502
61–180 days	26,668	33,321
181–365 days	6,139	3,864
Over 1 year	39	280
	<u>45,702</u>	<u>92,542</u>

The Group generally allows a credit period of up to 120 days to its customers. A longer credit period may be granted to large or long established customers with good payment history.

Other receivables, prepayments and deposits mainly consist of payments in advance to suppliers and value-added tax recoverable.

9. TRADE AND OTHER PAYABLES

	At 30 June 2020 <i>HK\$'000</i> (Unaudited)	At 31 December 2019 <i>HK\$'000</i> (Audited)
Trade payables	52,424	113,275
Bills payables	16,123	—
	<u>68,547</u>	<u>113,275</u>
Accruals and other payables	8,644	14,562
	<u>77,191</u>	<u>127,837</u>

Accruals and other payables mainly consist of payable of staff salaries and benefits.

The following is an aged analysis of trade and bills payables presented based on invoice date at the end of the period:

	At 30 June 2020 <i>HK\$'000</i> (Unaudited)	At 31 December 2019 <i>HK\$'000</i> (Audited)
0–60 days	65,550	103,843
61–90 days	309	2,904
Over 90 days	2,688	6,528
	<u>68,547</u>	<u>113,275</u>

10. SHARE CAPITAL

	At 30 June 2020 <i>HK\$'000</i> (Unaudited)	At 31 December 2019 <i>HK\$'000</i> (Audited)
Authorised: 3,000,000,000 ordinary shares of one third Hong Kong cent each	<u>10,000</u>	<u>10,000</u>
Issued and fully paid: 1,350,000,000 ordinary shares of one third Hong Kong cent each	<u>4,500</u>	<u>4,500</u>
	Number of ordinary shares	Nominal value of ordinary shares <i>HK\$'000</i>
Authorised: At 1 January 2019 (audited), 31 December 2019 (audited) and 30 June 2020 (unaudited)	<u>3,000,000,000</u>	<u>10,000</u>
Issued and fully paid: At 1 January 2019 (audited), 31 December 2019 (audited) and 30 June 2020 (unaudited)	<u>1,350,000,000</u>	<u>4,500</u>

All shares issued rank pari passu with the then existing in issue in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

Business outlook and future prospects

The Group is one of the top fine jewellery manufactures and wholesalers with over 30 years of history in Hong Kong. The principal business of the Group is designing, manufacturing and sales of high-end fine jewellery (primarily mounted with diamonds) (“**Jewellery Business**”) and the development and sales of properties for the Group’s integrated and comprehensive industry park located at 1st Ring Road South Extension Foshan, Guangdong Province, the People’s Republic of China (the “**PRC**”) (“**Property Development**”) with the development plan to build an integrated and comprehensive industry park (the “**Perfect Group Jewellery Industry Park**”).

In the first half of the year, for the Jewellery Business, the Group continued to suffer from weak buying behaviours of customers in the Dubai region. Further, the outbreak of the 2019 Novel Coronavirus (“**Covid-19**”) and the resultant quarantine measures and travel restrictions imposed by worldwide countries in early 2020 have had negative impact on the Group’s sales in the jewellery business. These measures and travel restrictions restrained our sales team from visiting our customers in our Dubai Office, and our Group to participate in various shows, fairs and exhibitions. Most of the shows, fairs and exhibitions were postponed or canceled during the period. The visits to our customers, our Dubai Office and the participation of shows, fairs and exhibitions are significant part of logistics and marketing activities of the Group.

Since the second half of 2018, the Group has started to deliver the completed units in Perfect Group Jewellery Industry Park to customers. The construction work at the Perfect Group Jewellery Industry Park was completed. Revenue is recognised at a point in time when the customer obtains the control of the property and the Group has the present right to payment and consideration is probable. As the units that the Group intended to sell have been sold and most of the sales proceeds have been received, the delivery of the units sold and the revenue recognition are proceeded as scheduled. The Group will sell the remaining units once necessary approvals are obtained from the relevant authorities. The management company of the Group in Perfect Group Jewellery Industry Park are now in full operation. The Group has also leased out part of the units of Perfect Group Jewellery Industry Park that may not be able to obtain the approval for sales in the short term.

FINANCIAL REVIEW

Overall Revenue

The Group's revenue for the six months ended 30 June 2020 was approximately HK\$261.3 million (six months ended 30 June 2019: approximately HK\$302.4 million), representing a decrease of approximately HK\$41.1 million or 13.6% from the corresponding period of 2019. The decrease in the Group's revenue was primarily due to the significant decrease in revenue amounting to approximately HK\$115.3 million or 66.7% from the corresponding period from Jewellery Business which was partly offset by the increase in recognition of revenue from property development business ("**Property Development**") during the period.

The revenue of Jewellery Business and Property Development represents approximately 22.0% and 78.0% of our total revenue, respectively.

Jewellery Business

Revenue

The Group's revenue for Jewellery Business during the six months ended 30 June 2020 was approximately HK\$57.6 million (six months ended 30 June 2019: approximately HK\$172.9 million), representing a significant decrease of approximately HK\$115.3 million or 66.7% from the corresponding period of 2019. The significant decrease was primarily due to the continued weak buying behaviours of customers in the Dubai region and the impact of Covid-19, leading to the cancellation or postponement of regular jewellery shows, fairs and exhibitions scheduled to be held in Hong Kong and overseas and thus, restricted the Group's sales team from visiting the customers and Dubai office.

Gross profit and gross profit margin

The gross profit decreased from approximately HK\$44.5 million to HK\$14.2 million, representing a significant decrease of approximately HK\$30.3 million or 68.1% which is in line with the significant decrease in the sales of Jewellery Business. The gross profit margin was approximately 24.7% for the period ended 30 June 2020 (six months ended 30 June 2019: 25.8%), which is similar to that for the 2019 period.

Property Development

Revenue, gross profit and gross profit margin

Revenue of approximately HK\$203.7 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$129.5 million) was recorded for the Property Development. The gross profit recognised for the six months ended 30 June 2020 was approximately HK\$101.5 million (six months ended 30 June 2019: HK\$53.3 million) and the gross profit margin was approximately 49.8% (six months ended 30 June 2019: approximately 41.2%) which were primarily due to the slightly increase in selling price of units and lowering of estimated cost.

Overall gross profit and gross profit margin

Overall gross profit increased from approximately HK\$97.8 million to HK\$115.7 million, representing an increase of approximately HK\$17.9 million or 18.3%. With respect to the gross profit, approximately HK\$14.2 million related to Jewellery Business, representing a significant decrease of approximately 68.1%, and approximately HK\$101.5 million related to Property Development, representing a significant increase of 90.4%.

Other Income

Other income comprised primarily of rental income from investment properties held in the PRC of approximately HK\$3.0 million (six months ended 30 June 2019: approximately HK\$533,000). The Group also received bank interest income of approximately HK\$1.7 million (six months ended 30 June 2019: approximately HK\$2.7 million).

Finance costs

The finance costs for the six months ended 30 June 2020 was approximately HK\$594,000 (six months ended 30 June 2019: approximately HK\$1.6 million). The finance costs comprised of interests on short term financing, loan interest of bank borrowing in the PRC and interest on lease liabilities. The finance costs decreased primarily due to the bank borrowing in PRC was fully repaid during the period.

Selling and Distribution Costs

The selling and distribution costs for the six months ended 30 June 2020 was approximately HK\$3.6 million (six months ended 30 June 2019: approximately HK\$8.6 million), a significant decrease of approximately HK\$5.0 million, or approximately 58.6%, as compared with corresponding period in 2019.

The significant decrease was primarily attributed to the jewellery shows, fairs and exhibitions normally held during the period were cancelled or postponed, leading to the significant decrease of the show expenses from approximately HK\$3.6 million to approximately HK\$52,000.

General and Administrative Expenses

The general and administrative expenses for the six months ended 30 June 2020 was approximately HK\$21.1 million (six months ended 30 June 2019: approximately HK\$27.0 million), representing a decrease of approximately HK\$5.9 million or 21.8% from the corresponding period of 2019. The decrease in general and administrative expenses was primarily attributable to the decrease in salaries expense from HK\$17.3 million to HK\$10.8 million, representing a decrease of approximately 37.6%, as compared with the corresponding period of 2019 as a result of reduction in salary for both staff and Directors.

Profit for the Period

As a result of the above factors, profit for the six months ended 30 June 2020 was approximately HK\$46.9 million (six months ended 30 June 2019: approximately HK\$57.7 million), representing a decrease of approximately 18.8%.

Liquidity and financial resources

As at 30 June 2020, the Group had current assets of approximately HK\$558.6 million (as at 31 December 2019: approximately HK\$831.2 million) which comprised of bank balances and cash of approximately HK\$103.8 million (as at 31 December 2019: approximately HK\$173.8 million) and properties held for sale of approximately HK\$206.6 million (as at 31 December 2019: approximately HK\$322.8 million). As at 30 June 2020, the current liabilities amounted to approximately HK\$213.9 million (as at 31 December 2019: approximately HK\$508.7 million). The significant decrease is primarily due to contract liabilities which is receipt in advance from customers. The current ratio, being the ratio of current assets to current liabilities, was approximately 2.61 as at 30 June 2020 (as at 31 December 2019: approximately 1.63).

Despite the outbreak of Covid-19 which had a negative impact on the operations of the Jewellery Business, the Group together with other businesses can maintain its healthy cash flow requirements as a whole. As at the period ended 30 June 2020, the Group after repaying all the bank borrowings (as at 31 December 2019: HK\$49.2 million) continued to maintain bank balances and cash of approximately HK\$103.8 million with an undrawn standby facilities with the bank to cater for the future operation requirements. The Directors believe that the Group has adequate working capital to support its ongoing operations and development requirements.

Gearing ratio

As the Group has repaid all bank borrowings, based on total borrowings divided by equity, the gearing ratio was approximately nil (as at 31 December 2019: approximately 8.8%).

Charge of assets

There was a charge on the Group's assets as at 30 June 2020 of approximately HK\$242.8 million (as at 31 December 2019: approximately HK\$237.8 million).

Capital commitments

As at 30 June 2020, the Group did not have any significant commitments contracted for but not provided in the consolidated financial statements (as at 31 December 2019: nil).

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2020 (as at 31 December 2019: nil).

Employee and remuneration policy

As at 30 June 2020, the Group had a total of approximately 143 employees (six month ended 30 June 2019: 134 employees) in Hong Kong and the PRC. The increase in head count was mainly due to the full operation of the Perfect Group Jewellery Industry Park management company in the PRC. The total salaries and related costs for the six months ended 30 June 2020 amounted to approximately HK\$10.8 million (six months ended 30 June 2019: HK\$17.3 million). During the six months ended 30 June 2020, the staff salary and related costs was HK\$7.0 million (six months ended 30 June 2019: HK\$11.1 million). The Directors' remuneration was HK\$3.6 million (six months ended 30 June 2019: HK\$4.4 million). The main reason for the decrease was primarily attributed to voluntary decrease in executive directors' remuneration and higher control over the salary and wages expenditure. Further, there was no share based payment expense for the six months ended 30 June 2020 (six month ended 30 June 2019: HK\$1.4 million).

The Group offered competitive remuneration package as an incentive to staff to improve their work performance. The Company has a share option scheme in place as a means to encourage and reward the eligible employees (including the Directors of the Company) for contributions to the Group's performance and business development, based on their individual performance. The employees' remuneration, promotion and salary are assessed by reference to their work performance, working experience and professional qualifications and the prevailing market practice.

Future plans and prospects

The Group has started to explore the general trading business of jewellery related products in the PRC by investing RMB950,000, equivalents to approximately HK\$1,111,000 in a 19% equity interest associated company in Shenzhen. The Group hopes that through this associated company the Group could be more active in the participation in the PRC jewellery business in the PRC and could grasp the opportunities in the PRC Jewellery business after Covid-19 has been contained.

Currently, the management company in the Perfect Group Jewellery Industry Park is now in full operation and a number of units in the Perfect Group Jewellery Industry Park were rented out.

During the period, the Group has implemented certain cost cutting measures such as tighter control over the production overhead and head count to ensure healthy development of the Group and such measures are expected to continue. Following the recent precautionary and control measures imposed by the government against Covid-19 in Hong Kong and in the regions where our customers are based, the Group has started to send sales team to visit our customers at their offices in recent months.

Interim dividend

The Board, after considering the current market situation and the operation of the Group, resolved not to declare interim dividend for the period.

Code on corporate governance practices

The Company is committed to maintaining good standard of corporate governance to safeguard the interest of the shareholders and to enhance corporate value and responsibility. During the six months ended 30 June 2020, the Company has adopted and complied with the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”), except the deviation from code provision A.2.1 of the CG Code as explained below.

According to code provision A.2.1 of the CG Code, the role of chairman of the Board and chief executive officer should be separate and should not be performed by the same individual. The role of the chief executive officer was performed by Mr. Kan Kin Kwong, who was also the chairman of the Board. Mr. Kan, as the founder of the Group, has extensive experience and knowledge in the fine jewellery industry and is responsible for managing the overall operations of the Group and planning the business development and strategies. The Directors consider that vesting the role of the chairman of the Board and the chief executive officer in the same individual is beneficial to the management and business development of the Group. The balance of power and authority is ensured by the operations of the Board and the senior management, which comprise experienced and high calibre individuals. The Board will continue to review and consider splitting the roles of the chairman of the Board and the chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Model code for securities transactions of Directors

The Company adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors in their dealings in the securities of the Company.

Having made specific enquiry of all Directors, the Directors have complied with the Model Code during the six months ended 30 June 2020.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company’s memorandum and articles of association or the Laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, sale or redemption of listing securities

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2020.

Sufficiency of public float

Since the Listing Date and up to the date of this announcement, the Company has maintained a sufficient public float.

Audit committee

The audit committee comprises three independent non-executive directors namely, Mr. Fan Chor Ho, Mr. Lee Ka Wing and Mr. Wong Wai Keung Frederick. Mr. Wong Wai Keung Frederick is the chairman of the audit committee. The audit committee and the Company's auditors have reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2020.

Publication of interim results announcement

The results announcement is published on Company's website (www.hkperjew.com.hk) and the Stock Exchange's website (www.hkexnews.hk).

The interim report of the Company for the six months ended 30 June 2020 containing all the information required by the Listing Rules, which will be available at the Company's and the Stock Exchange's websites and dispatched to the Company's shareholders in due course.

By order of the Board
Perfect Group International Holdings Limited
Kan Kin Kwong
Chairman and executive Director

Hong Kong, 17 August 2020

As at the date of this announcement, the executive Directors are Mr. Kan Kin Kwong, Ms. Shek Mei Chun and Mr. Chung Chi Keung; and the independent non-executive Directors are Mr. Fan Chor Ho, Mr. Lee Ka Wing and Mr. Wong Wai Keung Frederick.