

Perfectech

Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 00765

2022 INTERIM REPORT



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Li Shaohua
(Chief Executive Officer)
Mr. Poon Wai Yip, Albert

Independent Non-executive Directors:

Mr. Lau Shu Yan
Mr. Xie Xiaohong
Mr. Geng Jianhua

AUDIT COMMITTEE

Mr. Lau Shu Yan *(Committee Chairman)*
Mr. Xie Xiaohong
Mr. Geng Jianhua

REMUNERATION COMMITTEE

Mr. Geng Jianhua *(Committee Chairman)*
Mr. Xie Xiaohong
Mr. Lau Shu Yan

NOMINATION COMMITTEE

Mr. Lau Shu Yan *(Committee Chairman)*
Mr. Xie Xiaohong
Mr. Geng Jianhua

COMPANY SECRETARY

Mr. Lam Ka Shun (appointed on
13 September 2022)
Ms. Ng Chi Man (resigned on
13 September 2022)

AUTHORISED REPRESENTATIVES

Mr. Li Shaohua
Mr. Lam Ka Shun (appointed on
13 September 2022)
Ms. Ng Chi Man (resigned on
13 September 2022)

AUDITOR

HLM CPA Limited
Certified Public Accountants
Public Interest Entity Auditor registered in
accordance with the Financial Reporting
Council Ordinance

LEGAL ADVISER

Ronald Tong & Co

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
4th floor North
Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Standard Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

REGISTERED OFFICE

Victoria Place
5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

15/F, Sun Hing Industrial Building
46 Wong Chuk Hang Road
Aberdeen
Hong Kong

WEBSITE

www.perfectech.hk



The board (the “Board”) of directors (the “Directors”, each a “Director”) of Perfectech International Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2022.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		(Unaudited)	
		For the six months ended	
		30 June	
	Notes	2022 HK\$'000	2021 HK\$'000
Revenue	3 & 4	77,343	81,571
Cost of sales		<u>(54,963)</u>	<u>(58,005)</u>
Gross profit		22,380	23,566
Other income, gains and losses, net	5	2,021	458
Distribution costs		(804)	(1,101)
Administrative expenses		(29,039)	(30,582)
Finance costs		<u>(382)</u>	<u>(534)</u>
Loss before tax	6	(5,824)	(8,193)
Income tax expense	7	<u>(936)</u>	<u>(1,238)</u>
Loss for the period		<u>(6,760)</u>	<u>(9,431)</u>
Other comprehensive (expense) income for the period, net of tax			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>(1,520)</u>	<u>1,100</u>
Total comprehensive expense for the period		<u>(8,280)</u>	<u>(8,331)</u>



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

For the six months ended 30 June 2022

	(Unaudited)	
	For the six months ended	
	30 June	
	2022	2021
<i>Notes</i>	HK\$'000	HK\$'000
(Loss) profit for the period attributable to:		
Owners of the Company	(6,781)	(9,975)
Non-controlling interests	21	544
	(6,760)	(9,431)
Loss for the period	(6,760)	(9,431)
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(8,196)	(9,008)
Non-controlling interests	(84)	677
	(8,280)	(8,331)
Total comprehensive expense for the period	(8,280)	(8,331)
Loss per share	9	
Basic (HK cents per share)	(2.07)	(3.05)
Diluted (HK cents per share)	(2.07)	(3.05)



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		(Unaudited) 30 June 2022 HK\$'000	(Audited) 31 December 2021 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	10	18,379	20,493
Right-of-use assets		12,920	13,614
Deferred tax assets		2,130	2,130
		<hr/> 33,429	<hr/> 36,237
CURRENT ASSETS			
Inventories		18,262	14,947
Trade and other receivables	11	31,095	32,667
Financial assets at fair value through profit or loss ("FVTPL")		3,772	10,516
Tax Recoverable		390	1,295
Bank balances and cash		71,734	61,383
		<hr/> 125,253	<hr/> 120,808
CURRENT LIABILITIES			
Trade and other payables	12	34,646	24,353
Lease liabilities		815	1,158
Amount due to a director of subsidiaries	13	2,439	—
Tax liabilities		—	63
		<hr/> 37,900	<hr/> 25,574
NET CURRENT ASSETS		<hr/> 87,353	<hr/> 95,234
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 120,782	<hr/> 131,471
NON-CURRENT LIABILITIES			
Lease liabilities		13,038	13,261
NET ASSETS		<hr/> 107,744	<hr/> 118,210



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	(Unaudited) 30 June 2022 HK\$'000	(Audited) 31 December 2021 HK\$'000
CAPITAL AND RESERVES		
Share capital	32,692	32,692
Reserves	60,663	68,859
	<hr/>	<hr/>
Equity attributable to owners of the Company	93,355	101,551
Non-controlling interests	14,389	16,659
	<hr/>	<hr/>
TOTAL EQUITY	107,744	118,210



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Amount recognised in other comprehensive income and accumulated in equity relating to non-current assets classified as held for sale HK\$'000	Accumulated losses HK\$'000	Equity attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2022 (Unaudited)	32,692	118,895	10,337	771	–	(61,144)	101,551	16,659	118,210
(Loss) profit for the period	–	–	–	–	–	(6,781)	(6,781)	21	(6,760)
Other comprehensive (expense) income for the period	–	–	–	(1,415)	–	–	(1,415)	(105)	(1,520)
Total comprehensive (expense) income for the period	–	–	–	(1,415)	–	(6,781)	(8,196)	(84)	(8,280)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(2,186)	(2,186)
At 30 June 2022 (Unaudited)	32,692	118,895	10,337	(644)	–	(67,925)	93,355	14,389	107,744
At 1 January 2021 (Unaudited)	32,692	118,895	10,337	(877)	16,701	(71,325)	106,423	16,463	122,886
(Loss) profit for the period	–	–	–	–	–	(9,975)	(9,975)	544	(9,431)
Other comprehensive income for the period	–	–	–	967	–	–	967	133	1,100
Total comprehensive (expense) income for the period	–	–	–	967	–	(9,975)	(9,008)	677	(8,331)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(1,910)	(1,910)
Transfer of reserve upon disposal of Disposal Group classified as held for sale	–	–	–	–	(16,701)	16,701	–	–	–
At 30 June 2021 (Unaudited)	32,692	118,895	10,337	90	–	(64,599)	97,415	15,230	112,645



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	(Unaudited)	
	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
NET CASH FROM (USED IN) OPERATING ACTIVITIES	15,191	(1,633)
NET CASH FROM INVESTING ACTIVITIES	196	44,416
NET CASH USED IN FINANCING ACTIVITIES	(3,516)	(30,865)
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,871	11,918
CASH AND CASH EQUIVALENTS AT 1 JANUARY	61,383	59,467
Effect of change in foreign exchange rates	(1,520)	1,100
CASH AND CASH EQUIVALENTS AT 30 JUNE	71,734	72,485
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	71,734	72,485



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

The condensed consolidated financial statements are unaudited but have been reviewed by the audit committee of the Company (the “Audit Committee”).

2. PRINCIPAL ACCOUNTING POLICIES AND APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Except for the adoption of the revised HKFRSs stated below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2021.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2018–2020 cycle
HKFRS 3 (Amendments)	Reference to the Conceptual Framework
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations

The adoption of the revised HKFRSs has had no material effect on the Group’s financial performance and positions for the current or prior accounting period. Accordingly, no prior period adjustment has been required.



2. PRINCIPAL ACCOUNTING POLICIES AND APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective:

HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
HKFRS 17	Insurance Contracts and Related Amendment ¹
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current and Related Amendments to Hong Kong Interpretation 5 (2020) ¹
HKAS 1 (Amendments) and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
HKAS 8 (Amendments)	Definition of Accounting Estimates ¹
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

Notes:

- 1 Effective for annual periods beginning on or after 1 January 2023.
- 2 Effective date to be determined.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to external customers, less returns and trade discounts during the period.

	(Unaudited)	
	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
Revenue from contracts with customers recognised at a point in time under HKFRS 15:		
Novelties and decoration products	1,634	1,044
Toy products	75,709	80,527
	77,343	81,571



4. SEGMENT REPORTING

For management purposes, the Group is currently organised into two operating segments, namely the manufacture and sale of novelties and decoration products and the manufacture and sales of toy products.

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

For the six months ended 30 June 2022 (Unaudited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
REVENUE			
External sales and total revenue	1,634	75,709	77,343
RESULT			
Segment results	(3,216)	1,141	(2,075)
Loss on disposal of financial assets at FVTPL			(797)
Fair value loss on financial assets at FVTPL			(278)
Unallocated corporate expenses, net Finance costs			(2,292)
			(382)
Loss before tax			(5,824)
Income tax expense			(936)
Loss for the period			(6,760)



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT REPORTING (CONTINUED)

At 30 June 2022 (Unaudited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	31,985	116,905	148,890
Unallocated corporate assets			9,792
			<hr/>
Consolidated total assets			158,682
			<hr/>
LIABILITIES			
Segment liabilities	16,081	32,362	48,443
Unallocated corporate liabilities			2,495
			<hr/>
Consolidated total liabilities			50,938
			<hr/>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT REPORTING (CONTINUED)

For the six months ended 30 June 2021 (Unaudited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
REVENUE			
External sales and total revenue	1,044	80,527	81,571
RESULT			
Segment results	(3,584)	1,104	(2,480)
Gain on disposal of financial assets at FVTPL			346
Fair value loss on financial assets at FVTPL			(133)
Unallocated corporate expenses, net Finance costs			(5,392)
			(534)
Loss before tax			(8,193)
Income tax expense			(1,238)
Loss for the period			(9,431)

At 31 December 2021 (Audited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	27,438	115,252	142,690
Unallocated corporate assets			14,355
Consolidated total assets			157,045
LIABILITIES			
Segment liabilities	6,558	30,897	37,455
Unallocated corporate liabilities			1,380
Consolidated total liabilities			38,835



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT REPORTING (CONTINUED)

Geographical Information

The Group's revenue from external customers by location of customers are detailed below:

	(Unaudited)	
	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
Revenue by geographical market:		
Hong Kong	9,605	3,971
Europe	6,883	3,580
United States of America	9,116	10,698
Asia (other than Hong Kong)	51,677	62,908
Others	62	414
	<hr/>	<hr/>
	77,343	81,571
	<hr/>	<hr/>

The following is an analysis of the carrying amount of segment assets analysed by the geographical areas in where the assets are located:

	Carrying amount of segment assets	
	(Unaudited)	(Audited)
	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
Hong Kong	103,270	101,514
The People's Republic of China (the "PRC")	55,412	55,531
	<hr/>	<hr/>
	158,682	157,045
	<hr/>	<hr/>



5. OTHER INCOME, GAINS AND LOSSES, NET

	(Unaudited)	
	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
Interest income from financial assets held for cash management purposes	52	110
Rental income	—	13
Scrap and sample sales <i>(Note)</i>	935	1,003
Tooling income <i>(Note)</i>	295	378
Laboratory testing income <i>(Note)</i>	57	89
Subsidies income from the PRC government	154	85
Gain on disposal of property, plant and equipment	—	23
Gain on disposal of Disposal Group classified as held for sale <i>(Note 14)</i>	—	249
(Loss) gain on disposal of financial assets at FVTPL	(797)	346
Fair value loss on financial assets at FVTPL	(278)	(133)
Net foreign exchange gains (losses)	1,555	(1,808)
Others <i>(Note)</i>	48	103
	2,021	458

Note: These income are the revenue from contracts with customers recognised at a point in time under HKFRS 15.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	(Unaudited)	
	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
Depreciation		
– property, plant and equipment	2,400	2,506
– right-of-use assets	694	628
	<hr/>	<hr/>
	3,094	3,134
	<hr/>	<hr/>

7. INCOME TAX EXPENSE

	(Unaudited)	
	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
Current tax:		
– Hong Kong Profits Tax	923	1,329
– PRC Enterprise Income Tax	10	14
	<hr/>	<hr/>
	933	1,343
	<hr/>	<hr/>
Under (over) provision in prior years:		
– Hong Kong Profits Tax	–	(115)
– PRC Enterprise Income tax	3	10
	<hr/>	<hr/>
	3	(105)
	<hr/>	<hr/>
Total income tax expense recognised in profit or loss	936	1,238
	<hr/>	<hr/>



8. DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022 (2021: Nil).

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the Group's loss for the period attributable to owners of the Company of approximately HK\$6,781,000 (2021: HK\$9,975,000) and the weighted average number of ordinary shares of 326,923,607 (2021: 326,923,607).

Diluted loss per share for the periods ended 30 June 2022 and 2021 was the same as basic loss per share as there were no dilutive potential ordinary shares in issue for both periods.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$1,090,000 (2021: HK\$1,297,000).



11. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables (net of allowance for expected credit loss) of HK\$26,907,000 (31 December 2021: HK\$28,375,000). The Group allows an average credit period of 60 days to its trade customers. The following is an aging analysis of the Group's trade receivables, presented based on the invoice date and net of allowance for expected credit loss at the end of the reporting period:

	(Unaudited) 30 June 2022 HK\$'000	(Audited) 31 December 2021 HK\$'000
0-60 days	24,066	25,054
61-90 days	2,587	1,764
91-120 days	69	1,516
Over 120 days	185	41
	26,907	28,375

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$12,457,000 (31 December 2021: HK\$12,931,000). The following is an aging analysis of the Group's trade payables, presented based on the invoice date at the end of reporting period:

	(Unaudited) 30 June 2022 HK\$'000	(Audited) 31 December 2021 HK\$'000
0-60 days	9,881	10,332
61-90 days	1,604	1,748
91-120 days	194	361
Over 120 days	778	490
	12,457	12,931



13. AMOUNT DUE TO A DIRECTOR OF SUBSIDIARIES

The amount is interest free, unsecured and repayable on demand. The amount has been fully repaid up to the date of this report.

14. DISPOSAL OF A DISPOSAL GROUP

On 24 September 2020, Perfectech International (B.V.I.) Limited (the “Vendor”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Grand Oasis Ventures Limited (the “Purchaser”) relating to disposal of the entire issued share capital of Perfect Skill Limited (“Perfect Skill”), an indirectly wholly-owned subsidiary of the Company, and all obligations, liabilities and debts owing or incurred by Perfect Skill to the Company (the “Disposal Group”) by the Vendor to the Purchaser (the “Disposal”) at a consideration of HK\$67,100,000 in cash. The Disposal was completed on 10 February 2021.

The assets and liabilities of the Disposal Group as at date of the disposal were as follows:

	HK\$'000
Net assets disposed of:	
Property, plant and equipment	30,471
Investment property	36,329
Other receivables	41
Bank balances and cash	334
	67,175
Less:	
Other payables	(324)
	66,851



14. DISPOSAL OF A DISPOSAL GROUP (CONTINUED)

The assets and liabilities attributable to the Disposal Group have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position at 31 December 2020. The Disposal Group is included in the Group's unallocated corporate activities for segment reporting purposes for the year ended 31 December 2020.

Cumulative property revaluation reserve amounting to HK\$16,701,000 relating to the Disposal Group classified as held for sale has been separately presented in equity at 31 December 2020.

Consideration received:	HK\$'000
Cash consideration	<u>67,100</u>
Gain on disposal of subsidiaries (Note 5):	
Cash consideration received	67,100
Net assets derecognised	<u>(66,851)</u>
	<u>249</u>

An analysis of the net inflow of cash and cash equivalents in respect of the Disposal Group is as follows:

Net cash inflow arising on the Disposal:	
Cash consideration	67,100
Less: Deposit received	(26,386)
Bank balances and cash disposed of	<u>(334)</u>
Net inflow of cash in respect of the Disposal	<u>40,380</u>



15. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group had the following transactions with related parties who are not members of the Group:

	(Unaudited)	
	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
Interest expenses payable to:		
Ms. Lau Kwai Ngor (<i>Note</i>)	—	146
	<hr/>	<hr/>

Note: Ms. Lau Kwai Ngor is a director of certain subsidiaries of the Company.

- (b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the period were as follows:

	(Unaudited)	
	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
Short-term benefits	3,200	4,196
Post-employment benefits	18	40
	<hr/>	<hr/>
	3,218	4,236
	<hr/>	<hr/>



MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board has resolved not to declare interim dividend for the six months ended 30 June 2022 (the six months ended 30 June 2021: Nil).

BUSINESS AND FINANCIAL REVIEW

Affected by the outbreak of Coronavirus Disease 2019 (the “COVID-19”) pandemic, the Group’s operating environment remained challenging in the first half of 2022. During the six months ended 30 June 2022, the Group’s revenue only decreased by 5% year-on-year to approximately HK\$77,343,000 (2021: HK\$81,571,000) despite facing a tough operating environment. The decrease in revenue was due to decline in sales of toy products. The Group recorded a loss for the period attributable to owners of the Company of approximately HK\$6,781,000 (2021: HK\$9,975,000). The basic and diluted loss per share were both at 2.07 HK cents (2021: both 3.05 HK cents).

For the six months ended 30 June 2022, the Group’s core business recorded a loss of HK\$2,075,000 (2021: HK\$2,480,000). The performance of each segment of the Group’s core business are discussed below.

Toy products

The revenue of toy products segment decreased by about 6% year-on-year to approximately HK\$75,709,000 (2021: HK\$80,527,000), and accounted for about 98% of total revenue of the Group. The decrease in revenue of this segment was mainly attributable to the lower sales in Asia (other than Hong Kong). The profit of this segment increased to approximately HK\$1,141,000 (2021: HK\$1,104,000). It was mainly attributable to a tightened cost control in the production implemented during the period.

Novelties and decoration products

The revenue of the novelties and decoration products segment increased by about 57% year-on-year to approximately HK\$1,634,000 (2021: HK\$1,044,000) which was primarily driven by the growth in sales in USA and Europe. The loss of this segment decreased to approximately HK\$3,216,000 (2021: HK\$3,584,000). It was mainly attributable to an increase in selling price of novelties and decoration.



BUSINESS AND FINANCIAL REVIEW (CONTINUED)

Distribution costs and administrative expenses

Distribution costs decreased by about 27% year-on-year to approximately HK\$804,000 (2021: HK\$1,101,000) as a result of stringent cost control measures implemented by the Group.

Administrative expenses mainly consisted of staff costs (including directors' emoluments), social insurance for the administrative staff in the PRC, depreciation of property, plant and equipment and right-of-use assets, legal and professional fee and other administrative expenses. The administrative expenses decreased by about 5% year-on-year to approximately HK\$29,039,000 (2021: HK\$30,582,000), which was mainly attributable to the decrease in staff costs.

Finance costs

Finance costs decreased by about 29% year-on-year to approximately HK\$382,000 (2021: HK\$534,000), as a result of the decrease in interest on amount due to a director of subsidiaries.

Liquidity and financial resources

As at 30 June 2022, the Group had no outstanding loan (including bank borrowing, bond and other borrowing) (31 December 2021: HK\$Nil) and had amount due to a director of subsidiaries of approximately HK\$2,439,000 (31 December 2021: HK\$Nil). The Group's gearing ratio, calculated on the basis of the amount due to a director of subsidiaries over the equity attributable to owners of the Company, was 2.6% (31 December 2021: 0%).

As at 30 June 2022, the Group had bank balances and cash of approximately HK\$71,734,000 (31 December 2021: HK\$61,383,000). With net current assets of approximately HK\$87,353,000 as at 30 June 2022 (31 December 2021: HK\$95,234,000), the Group had sufficient financial resources to satisfy its commitments and working capital requirements.



BUSINESS AND FINANCIAL REVIEW (CONTINUED)

Net asset value

The net asset value per share as at 30 June 2022 was approximately HK\$0.29 (31 December 2021: HK\$0.31), calculated on the basis of the equity attributable to owners of the Company of approximately HK\$93,355,000 (31 December 2021: HK\$101,551,000) over the actual number of shares of the Company (“Shares”) in issue on that date of 326,923,607 (31 December 2021: 326,923,607).

Pledge of Assets

As at 30 June 2022, no asset of the Group was pledged (31 December 2021: HK\$Nil).

Contingent Liabilities

There have been no changes in the Group’s contingent liabilities since the year ended 31 December 2021.

Significant investments

As at 30 June 2022, the Group held financial assets at FVTPL amounted to approximately HK\$3,772,000 (31 December 2021: HK\$10,516,000), including equity securities listed in Hong Kong of HK\$1,394,000 (31 December 2021: HK\$461,000), debt securities listed outside Hong Kong of approximately HK\$216,000 (31 December 2021: HK\$1,580,000) and unlisted managed funds of approximately HK\$2,162,000 (31 December 2021: HK\$8,475,000). Loss on disposal of financial assets at FVTPL amounted to approximately HK\$797,000 (2021: gain of HK\$346,000) and fair value loss on financial assets at FVTPL amounted to approximately HK\$278,000 (2021: HK\$133,000) during the six months ended 30 June 2022.



BUSINESS AND FINANCIAL REVIEW (CONTINUED)

Disposals of subsidiaries

On 24 September 2020, Perfectech International (B.V.I.) Limited (the “Vendor”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Grand Oasis Ventures Limited to dispose of the entire issued share capital of Perfect Skill Limited (“Perfect Skill” and together with its subsidiaries collectively referred to as the “Disposal Group”), an indirectly wholly-owned subsidiary of the Company, and all obligations, liabilities and debts owing or incurred by Perfect Skill to the Vendor at the consideration of approximately HK\$67,100,000. The principal assets in the Disposal Group were leasehold land and buildings of approximately HK\$30,471,000 and investment property of approximately HK\$36,329,000 as at 31 December 2020. The assets and liabilities attributable to the Disposal Group were classified as a disposal group held for sale and presented separately in the consolidated statement of financial position of the Group as at 31 December 2020. The transaction was completed on 10 February 2021.

Employees and remuneration policies

As at 30 June 2022, the Group employed approximately 755 (31 December 2021: 690) full time employees. The Group remunerates its employees primarily based on prevailing industry practice as well as individual merits. The Group regularly reviews its remuneration policy with reference to the latest laws and regulations, market conditions, and performance of employees and the Group. In order to align the interests of staff with those of the shareholders of the Company (“Shareholders”), the Group has also established a share option scheme for its full time employees.

Foreign currency exposure

The Group’s purchases are mainly denominated in Renminbi (“RMB”) and Hong Kong Dollar (“Hong Kong Dollar”) while the Group’s sales are mainly denominated in RMB and United States Dollar (“US Dollar”). As all of its factories are located in the PRC, expenses incurred there are denominated in RMB. Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exposure in this area, and will closely monitor the trend of RMB to see if any action is required. As at 30 June 2022, the Group did not enter into any financial instrument for the hedging of exposure in foreign currencies.



FUTURE PLANS FOR MATERIAL INVESTMENTS

As referred to in the Company's announcement titled "Inside Information in Relation to Framework Sale and Purchase Agreement" dated 15 August 2019 and further discussed in the annual report of the Company for the year ended 31 December 2020, on 15 August 2019, the Company entered into a framework sale and purchase agreement with Sino-Science Netherlands Petroleum B.V., a company incorporated under the laws of Netherlands ("SSNP"), pursuant to which the Company has conditionally agreed to acquire more than 50% of the total participating interests or shares of Sozak Oil and Gas JSC (formerly known as Sozak Oil and Gas LLP) ("Sozak"), established under the laws of Kazakhstan ("Proposed Acquisition"). The Proposed Acquisition is subject to the execution of a definitive agreement. Sozak is principally engaged in the exploration of oil and natural gas in South-Kazakhstan and Kyzylorda region and the petroleum assets are located in the Marsel Block in the Chu-Sarysu Basin of Kazakhstan which is currently under appraisal.

No agreement as to the material terms of the Proposed Acquisition was reached between the Company and the counterparty in further negotiation taken place during the six months ended 30 June 2022, and the Company became aware in July 2022 that Sozak has entered into an agreement with another third party independent of the Group for the operation, management and cooperative development of the mineral projects of Sozak, under which Sozak has awarded certain rights of its mineral projects to the counterparty. As a result, the Board was of the view that it was no longer in the best interests of the Company and its shareholders as a whole to pursue for the Proposed Acquisition, hence the Company did not proceed with the Proposed Acquisition and no definitive agreement was entered into in respect of the Proposed Acquisition. The Company will continue to look for suitable investment and acquisition opportunities in the field of oil and gas exploration and production.



FUTURE PLANS FOR MATERIAL INVESTMENTS (CONTINUED)

As referred to in the Company's announcement dated 18 March 2021 concerning the BOINC strategic cooperation agreement entered into between the Company, California Super Computing Network Technology, Inc. and Affluence Energy Holding SARL and the Chainup strategic cooperation agreement entered into between the Company, Chainup Pte. Ltd. and Sozak; and Company's announcement dated 31 March 2021 concerning the DCOIN strategic cooperation agreement entered into between the Company and Davox Technology AG (the BOINC strategic cooperation agreement, together with the Chainup strategic cooperation agreement and DCOIN strategic cooperation agreement, collectively referred to as the "Strategic Cooperation Agreements"), the Company entered into the Strategic Cooperation Agreements with relevant parties with the aim of diversifying into the business in the field of blockchain and cryptocurrency. However, upon further assessments of the feasibility and in particular the risks associated with the field of blockchain and cryptocurrency, the Company has decided not to proceed further with the cooperation contemplated under the Strategic Cooperation Agreements. As the Company and the parties to the Strategic Cooperation Agreements have not yet entered into any final agreement for conducting any transaction, it is expected that discontinuing the strategic cooperation will not have any significant adverse impact on the operating results or financial position of the Group.

PROSPECT

Although the Company ultimately did not proceed with the Proposed Acquisition and the Strategic Cooperation Agreements, the Company will continue to look for more quality mergers and acquisitions and integration opportunities in the field of oil and gas exploration and production, and develop into a resource integration company with energy as its core business.

The Directors will exercise caution in assessing the prospect of any new potential investment opportunities in order to bring additional value and new income streams to the Group, and create long-term returns for the Shareholders with enhanced values.

Meanwhile, the outbreak of the COVID-19 pandemic is expected to continue to cast uncertainty and challenges on the Group's operating environment in the second half of 2022. The Directors are moving ahead cautiously. The Group will continue to optimise its product mix to meet the demand of the customers, strengthen production and operational efficiency, as well as implement stringent cost management in order to minimise the impact of these challenges.

With the joint efforts of all of its employees, the Group endeavors to maintain a good business relationship with its customers, business partners and Shareholders to maximise its corporate value and deliver promising returns to its Shareholders.



OTHER INFORMATION

SHARE OPTION SCHEME

A share option scheme (the “Scheme”) of the Company was adopted on 30 May 2012. The key terms of the Scheme had been summarised in the annual report of the Company for the year ended 31 December 2021.

As at 30 June 2022, the number of Shares available for issue under the Scheme were 32,692,360, representing approximately 10% of the Shares in issue at that date.

There was no share options granted, exercised, cancelled or lapsed under the Scheme during the six months ended 30 June 2022. There were no outstanding share options of the Company as at 1 January 2022 and 30 June 2022.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS IN SHARES AND OPTIONS

As at 30 June 2022, none of the Directors and chief executive of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules.



SUBSTANTIAL SHAREHOLDERS

As at 30 June 2022, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the issued shares of the Company as follows:

Long position in shares of the Company

Shareholders	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	% of issued share capital of the Company (approximately) ⁽³⁾	
				Total	
Mr. Zhai Jun	Interest of controlled corporation	125,297,040	—	125,297,040 ⁽¹⁾	38.33
Star Fly Limited	Beneficial owner	125,297,040	—	125,297,040 ⁽¹⁾	38.33
Mr. Gao Xiaorui	Interest of controlled corporation	119,297,041	—	119,297,041 ⁽²⁾	36.49
Fresh Choice Holdings Limited	Beneficial owner	119,297,041	—	119,297,041 ⁽²⁾	36.49
Hou Han Ping*	Beneficial owner	18,757,200	—	18,757,200	5.74
Yan Guo Liang*	Beneficial owner	18,528,000	—	18,528,000	5.67

Notes:

- (1) For the purpose of Part XV of the SFO, as at 30 June 2022, Mr. Zhai Jun was deemed to be interested in the 125,297,040 Shares held by Star Fly Limited. Star Fly Limited is a limited company incorporated in the British Virgin Islands wholly owned by Mr. Zhai Jun.
- (2) For the purpose of Part XV of the SFO, as at 30 June 2022, Mr. Gao Xiaorui was deemed to be interested in 119,297,041 Shares held by Fresh Choice Holdings Limited. Fresh Choice Holdings Limited is a limited company incorporated in the British Virgin Islands owned as to 90% by Mr. Gao Xiaorui and 10% by Ms. Yu Hsuan-Jung.
- (3) Such percentages are calculated based on the total number of Shares in which each of the substantial Shareholders was interested against the number of issued Shares as at 30 June 2022, being 326,923,607 Shares.

* The English transliteration of Chinese names or words are included for reference only and should not be regarded as the official English translation of such Chinese names or word.



PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted a corporate governance code, based on the code provisions (the "Code Provisions") of the latest revised Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules from time to time.

Throughout the six months ended 30 June 2022, the Company has complied with the Code Provisions save for the following deviation:

Code Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

After the resignation of Ms. Zhu Yuqi as a non-executive Director, the chairman of the Board (the "Chairman") and the chairman of the nomination committee of the Company (the "Nomination Committee") on 15 December 2020, the duties of the Chairman have been undertaken by all members of the Board and the company secretary of the Company (the "Company Secretary") collectively.

The Board believes that with the support of the management, vesting the role of the Chairman in the Board and the Company Secretary collectively can facilitate the execution of the Group's business strategies and enhance the effectiveness of its operation. Further, the Board considers that the current structure will enhance the balance of power and authority between the Board and the management of the Group as the Board, which comprises experienced and high calibre individuals who meet regularly to discuss issues pertaining to the operations of the Company, assumes collective responsibility on the decision making process of the Company's business strategies and operation.

The Board is in the process of identifying a suitable candidates with appropriate experience to act as the Chairman, before which the duties of the Chairman will continue to be undertaken by the Directors and the Company Secretary collectively.





OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code.

Specific enquiries have been made with all Directors and they have confirmed that throughout the six months ended 30 June 2022, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, Mr. Xie Xiaohong, Mr. Geng Jianhua and Mr. Lau Shu Yan, who is also the chairman of the Audit Committee. The Audit Committee has reviewed the Group's unaudited consolidated interim results and interim report for the six months ended 30 June 2022.

DIRECTORS OF THE COMPANY

At the date of this report, the Board comprises Mr. Li Shaohua and Mr. Poon Wai Yip, Albert as executive Directors, Mr. Xie Xiaohong, Mr. Lau Shu Yan and Mr. Geng Jianhua as independent non-executive Directors.

By order of the Board
Perfectech International Holdings Limited
Li Shaohua
Director

Hong Kong, 31 August 2022

