BRILLIANT CIRCLE HOLDINGS INTERNATIONAL LIMITED
貴聯控股國際有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1008)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the "Board") of directors (the "Directors") of Brilliant Circle Holdings International Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2020 (the "Period under Review") together with the 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
		(Unaudited)	(Unaudited)
	NOTES	***HK$'000***	*HK$'000*
Revenue	*4*	**615,641**	616,920
Cost of sales		**(480,289)**	(492,978)
Gross profit		**135,352**	123,942
Other income		**27,107**	19,403
Other gains and losses		**(4,094)**	2,718
Impairment losses on financial assets and contract assets, net of reversal		**(2,015)**	(784)
Selling and distribution expenses		**(22,100)**	(23,692)
Administrative expenses		**(39,178)**	(38,561)
Other expenses		**(7,277)**	(1,395)
Finance costs		**(9,038)**	(9,567)
Share of profits of associates		**22,327**	20,819
Share of profit (loss) of a joint venture		**131**	(146)
Profit before taxation		**101,215**	92,737
Taxation	*6*	**(18,793)**	(16,108)
Profit for the period	*7*	**82,422**	76,629

	NOTE	Six months ended 30 June **2020** **(Unaudited)** ***HK$'000***	2019 (Unaudited) *HK$'000*
Other comprehensive expense:			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**(50,201)**	(8,711)
Total comprehensive income for the period		**32,221**	67,918
Profit for the period attributable to:			
Owners of the Company		**82,997**	76,078
Non-controlling interests		**(575)**	551
		82,422	76,629
Total comprehensive income attributable to:			
Owners of the Company		**33,379**	67,516
Non-controlling interests		**(1,158)**	402
		32,221	67,918
		HK$	*HK$*
Earnings per share			
Basic and diluted	*9*	**0.05**	0.05

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	NOTE	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Non-current Assets			
Property, plant and equipment		**805,885**	790,341
Right-of-use assets		**98,443**	103,596
Investment properties		**21,668**	23,076
Goodwill		**1,012,189**	1,025,495
Intangible assets		**92,416**	113,423
Interests in associates		**378,882**	423,245
Interest in a joint venture		**7,661**	7,676
Deferred tax assets		**1,489**	1,940
Rental and other deposits paid		**9,012**	20,249
		2,427,645	2,509,041
Current Assets			
Inventories		**150,857**	160,771
Trade receivables	*10*	**499,423**	557,708
Contract assets		**194,765**	170,724
Other receivables, prepayments and refundable deposits		**47,818**	35,936
Tax recoverable		**1,759**	2,329
Pledged bank deposits		**6,497**	9,476
Bank balances and cash		**726,189**	201,168
		1,627,308	1,138,112

	NOTE	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Current Liabilities			
Trade payables	11	**245,032**	226,288
Other payables and accruals		**73,493**	92,568
Lease liabilities		**2,325**	4,354
Amounts due to non-controlling interests of subsidiaries		**2,281**	8,290
Bank borrowings		**671,589**	256,462
Dividends payable		**299,936**	–
Bank overdrafts		**–**	2,728
Income tax payable		**15,749**	32,921
		1,310,405	623,611
Net Current Assets		**316,903**	514,501
Total Assets less Current Liabilities		**2,744,548**	3,023,542
Non-current Liabilities			
Government grants		**25,885**	27,297
Lease liabilities		**262**	551
Deferred tax liabilities		**59,940**	69,518
		86,087	97,366
Net assets		**2,658,461**	2,926,176
Capital and Reserves			
Share capital		**7,839**	7,839
Share premium and reserves		**2,629,905**	2,896,462
Equity attributable to owners of the Company		**2,637,744**	2,904,301
Non-controlling interests		**20,717**	21,875
Total Equity		**2,658,461**	2,926,176

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL

Brilliant Circle Holdings International Limited ("the Company") was incorporated in the Cayman Islands on 11 November 2008 as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate controlling party is Mr. Cai Xiao Ming, David (the "Controlling Shareholder"). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Room 1201A, 12/F, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are engaged in provision of the printing of cigarette packages, manufacturing of paper packaging materials, manufacturing of laminated papers, manufacturing and sale of radio frequency identification ("RFID") products, printing of packages and decoration matters, research and development on printing technology, wholesale, import and export of the packaging products and other related services.

The Company's functional currency is Renminbi ("RMB"). For the convenience of the financial statements users, the condensed consolidated financial statements are presented in Hong Kong dollars ("HK$") as the Company's shares are listed on the Stock Exchange.

2. BASIS OF PREPARATION

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

2A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operation of the Group. The Group suspended its manufacturing activities in February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the pandemic. On the other hand, the PRC government has announced some financial measures and supports for the corporates to overcome the negative impact arising from the pandemic to the Group. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in sales of RFID products contribution to communities in respect of Covid-19-related donations, government support in respect of Covid-19-related subsidies and impairment loss on goodwill arising from sales of RFID products as disclosed in relevant notes.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as appropriate.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual 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 mandatory 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 References to the Conceptual Framework in HKFRS standards and 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.

3.1 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.

4. REVENUE

Disaggregation of revenue from contracts with customers

Types of goods or services

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Printing and manufacturing of cigarette packages and related materials		
— Printing of cigarette packages	**535,943**	517,637
— Manufacturing of paper packaging materials	**35,414**	37,812
Manufacturing of laminated papers	**14,929**	20,115
Sales of RFID products	**29,355**	41,356
	615,641	616,920

Timing of revenue recognition

	For the six months ended 30 June 2020				
	Printing of cigarette packages (Unaudited)	**Manufacturing of paper packaging materials (Unaudited)**	**Manufacturing of laminated papers (Unaudited)**	**Sales of RFID products (Unaudited)**	**Total (Unaudited)**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
A point in time	**–**	**35,414**	**–**	**29,355**	**64,769**
Over time	**535,943**	**–**	**14,929**	**–**	**550,872**
Total	**535,943**	**35,414**	**14,929**	**29,355**	**615,641**

	For the six months ended 30 June 2019				
	Printing of cigarette packages (Unaudited)	Manufacturing of paper packaging materials (Unaudited)	Manufacturing of laminated papers (Unaudited)	Sales of RFID products (Unaudited)	Total (Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
A point in time	–	37,812	–	41,356	79,168
Over time	517,637	–	20,115	–	537,752
Total	517,637	37,812	20,115	41,356	616,920

Geographical markets

Information about the Group's revenue from external customers is presented based on the location of customers irrespective of the origin of goods/services.

	For the six months ended 30 June 2020				
	Printing of cigarette packages (Unaudited)	**Manufacturing of paper packaging materials (Unaudited)**	**Manufacturing of laminated papers (Unaudited)**	**Sales of RFID products (Unaudited)**	**Total (Unaudited)**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
PRC	**535,943**	**35,414**	**14,929**	**18,999**	**605,285**
Others *(Note)*	**–**	**–**	**–**	**10,356**	**10,356**
Total	**535,943**	**35,414**	**14,929**	**29,355**	**615,641**

	For the six months ended 30 June 2019				
	Printing of cigarette packages (Unaudited) *HK$'000*	Manufacturing of paper packaging materials (Unaudited) *HK$'000*	Manufacturing of laminated papers (Unaudited) *HK$'000*	Sales of RFID products (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
PRC	517,637	37,812	20,115	35,308	610,872
Others *(Note)*	–	–	–	6,048	6,048
Total	517,637	37,812	20,115	41,356	616,920

Note: Others included Brazil, the Republic of Indonesia, the United States of America and the Republic of Korea.

5. SEGMENT INFORMATION

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 types of goods delivered or services provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

The Group's operating and reportable segments currently are (i) printing and manufacturing of cigarette packages and related materials, (ii) manufacturing of laminated papers and (iii) sales of RFID products. The CODM considered the Group has three (2019: three) operating and reportable segments which are based on the internal organisation and reporting structure. This is the basis upon which the Group is organised.

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

For the six months ended 30 June 2020

	Printing and manufacturing of cigarette packages and related materials *HK$'000*	**Manufacturing of laminated papers** *HK$'000*	**Sales of RFID products** *HK$'000*	**Total** *HK$'000*
Segment revenue	**571,357**	**14,929**	**29,355**	**615,641**
Segment profit	**127,406**	**2,207**	**2,244**	**131,857**
Unallocated — other income				**27,107**
Unallocated — other gains and losses				**(4,094)**
Unallocated expenses				**(65,060)**
Finance costs				**(9,038)**
Share of profits of associates				**22,327**
Share of profit of a joint venture				**131**
Impairment loss on financial assets and contract assets, net of reversal				**(2,015)**
Profit before taxation				**101,215**

For the six months ended 30 June 2019

	Printing and manufacturing of cigarette packages and related materials *HK$'000*	Manufacturing of laminated papers *HK$'000*	Sales of RFID products *HK$'000*	Total *HK$'000*
Segment revenue	555,449	20,115	41,356	616,920
Segment profit	116,720	4,637	4,786	126,143
Unallocated — other income				19,403
Unallocated other gains and losses				2,718
Unallocated expenses				(65,849)
Finance costs				(9,567)
Share of profits of associates				20,819
Share of loss of a joint venture				(146)
Impairment loss on financial assets and contract assets, net of reversal				(784)
Profit before taxation				92,737

Segment profit represents the profit earned by each segment without allocation of corporate management expenses, directors' emoluments, share of profits of associates, share of profit (loss) of a joint venture, finance costs, unallocated other income, other gains and losses, impairment loss on financial assets and contract assets, net of reversal, amortisation of intangible assets relating to customer relationship and other expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

All of the segment revenue reported above is from external customers.

6. TAXATION

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**12,836**	15,013
Withholding tax	**14,272**	5,975
Overprovision of EIT in prior year	**(142)**	(1,598)
	26,966	19,390
Deferred tax	**(8,173)**	(3,282)
	18,793	16,108

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The PRC EIT is calculated at the applicable prevailing tax rates from 15% to 25% (2019: 15% to 25%) in the PRC. Pursuant to the "Enterprise Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises", some PRC subsidiaries, being a High-Tech Enterprise, were entitled to a reduced EIT rate of 15% for the years from 2018 to 2021.

Upon the New Tax Law and Implementation Regulations, the PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries and associate to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or lower tax rate, as applicable. Under the relevant tax treaty, withholding tax rate on distribution to Hong Kong resident companies is 5%. Deferred taxation has been provided on undistributed earnings of all subsidiaries and associate.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**1,630**	1,651
Other staff costs		
Salaries and other benefits	**72,064**	73,882
Contributions to retirement benefits schemes *(Note)*	**4,613**	7,601
Total staff costs	**78,307**	83,134
Less: capitalised in inventories	**(8,304)**	(7,898)
included in costs of sales	**(55,018)**	(60,297)
	14,985	14,939
Depreciation of property, plant and equipment	**47,270**	51,525
Depreciation of investment properties	**987**	950
Depreciation of right-of-use assets	**3,254**	3,382
Amortisation of intangible assets (included in cost of sales and administrative expenses)	**20,880**	26,115
Total depreciation and amortisation	**72,391**	81,022
Less: capitalised in inventories	**(10,147)**	(8,904)
included in cost of sales	**(48,928)**	(57,472)
	13,316	14,646

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Research and development costs recognised as an expense (included in other expenses)	**1,782**	1,395
Share of taxation of associates	**5,582**	5,205
Government grants (included in other income)	**(17,062)**	(12,672)
Government support in respect of Covid-19-related subsidies (included in other income)	**(688)**	–
Contribution in respect of Covid-19-related donations (included in other expenses)	**3,806**	–
Rental income from investment properties	**(2,651)**	(1,913)
Gain from change in fair value of financial assets at FVTPL	**(124)**	(1,377)
Gain from change in fair value of financial liabilities at FVTPL	**–**	(1,190)
Net foreign exchange losses	**1,395**	44
Impairment losses on goodwill	**3,000**	–
Gain on disposals of property, plant and equipment	**(57)**	(164)
Gain on disposal of a subsidiary	**(120)**	–

Note: During the current interim period, the Group was benefited from the reduction of contribution to retirement benefits of PRC staff by the PRC government, which amounted to HK$4,284,000 to overcome the negative impact arising from the Covid-19 pandemic.

8. DIVIDENDS

The aggregate amount of the dividend declared and paid in the interim period is as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the period:		
— 2019 final dividend	**299,936**	–

During the current period, the final dividend of HK19.13 cents per share in respect of the year ended 31 December 2019 (2019: Nil), amounting approximately of HK$299,936,000 (2019: Nil) has been declared to shareholders. The directors of the Company have resolved not to declare any dividend in respect of the interim period.

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings:		
Earnings for the purpose of basic earnings per share (Profit for the period attributable to owners of the Company)	**82,997**	76,078
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share	**1,567,885**	1,567,885

No dilutive earnings per share is presented for the six months ended 30 June 2020 and 2019 since there were no potential ordinary shares in issue during both periods.

10. TRADE RECEIVABLES

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables		
— third parties	**511,742**	567,355
— an associate	**3,174**	4,229
	514,916	571,584
Less: allowance for credit losses	**(15,493)**	(13,876)
	499,423	557,708

The Group allows a credit period of 60 days to 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the date of delivery goods/invoice date at the end of the reporting period, which approximated revenue recognition dates except for receivables arising from printing of cigarette packages and manufacturing of laminated papers which are recognised over time upon application of HKFRS 15.

	30 June 2020 (Unaudited) *HK$'000*	31 December 2019 (Audited) *HK$'000*
0–90 days	**401,433**	502,367
91–180 days	**77,348**	36,188
181–365 days	**16,083**	4,842
Over 365 days	**20,052**	28,187
	514,916	571,584

As at 30 June 2020, total bills received amounting to HK$10,929,000 (31 December 2019: HK$21,312,000) are held by the Group for future settlement of trade receivables due from third parties. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

11. TRADE PAYABLES

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

	30 June 2020 (Unaudited) *HK$'000*	31 December 2019 (Audited) *HK$'000*
0–30 days	**87,207**	118,923
31–90 days	**101,979**	77,417
91–180 days	**28,321**	12,286
181–365 days	**16,530**	4,079
Over 365 days	**10,995**	13,583
	245,032	226,288

As at 30 June 2020, bills amounting to HK$4,385,000 (31 December 2019: HK$5,649,000) are transferred to suppliers for settling trade payables.

12. CONTINGENT LIABILITIES

As to the outstanding lawsuit disclosed in the Group's consolidated financial statements for the year ended 31 December 2019, there is no further progress since the last annual reporting date. In the opinion of the directors of the Company, it is still not probable that the Group has an obligation to settle the claims based on the legal advice and no provision is considered to be recognised in the condensed consolidated financial statements accordingly.

BUSINESS REVIEW

During the Period under Review, the Company achieved revenue of approximately HK$615.6 million with profit attributable to owners of the Company amounting to approximately HK$83.0 million and basic earnings per share of approximately HK5 cents. The Board did not recommend the payment of an interim dividend for the Period under Review.

The Chinese economy saw a sharp decline in the first three months of the year as a result of the coronavirus pandemic but it managed to grow more strongly than expected as it emerged from the lockdown measures imposed across the country. All the stimulus measures announced by the authorities seem to be working — with factories getting busier. Recent industrial production data and China's Gross Domestic Product (GDP) has returned to growth during April to June.

In January 2020, the signs of overheating of sales of the cigarette industry in China have called for the authority's concern for cooling measures. However, the government authority has been rapidly reversing the policy direction since the outbreak of the coronavirus disease ("Covid-19"), to counter the recession and maintain development in sales and production in the industry amidst the drastic economic slowdown brought by the pandemic. Such big policy shift marked the big fluctuation and rebound during the early months until the situation resumed back to normal in late June.

Printing and Manufacturing of Cigarette Packages and Related Materials

During the Period under Review, the segment has undergone a rapid recovery of business volume as work resumed after the nationwide shutdown. This has served to almost completely offset the downside effect of Covid-19 and the ongoing sales price pressure. Overall sales amount in this segment has just marginally decreased. Coupled with the taming of material cost inflation, the profit from the segment of printing and manufacturing of cigarette packages and related materials, being the most significant segment of the Group, recorded a continuous improvement in product profitability compared with the corresponding period of 2019.

Manufacturing of Laminated Papers

The segment profit of laminated paper manufacturing has decreased mainly due to decrease in the unit price of newly awarded tender and decrease in the business volume brought by the pandemic during the Period under Review.

Sales of RFID products

During the Period under Review, the result of the Group's internet-of-things ("IOT") company remains disappointing since no comparable replacement customer was secured after the loss of a major lucrative RFID overseas customer. Situation was aggravated by the China's looming trade conflict with the US. The revenue from this segment has dropped sharply together with its profit.

PROSPECT

China is expected to still be more or less affected by the gloomy international trade and weak domestic consumption after work resumption since start of second quarter. Various government stimulus measures have yet to take their expected effect in full on various commercial sectors and the job market. On the other hand, sporadic recurrence of Covid-19 cases and fear of another major outbreak in the upcoming cold winter months still lingers before effective vaccine can be made available nation-wide. The tensions with the US is expected to keep flaring up before the next US election. All such uncertainties are expected to affect the Chinese economy for the remaining months of 2020.

Consumer spending is still below the pre-Covid-19 level, but the remaining gap is largely concentrated in travel services where rapid recovery is unlikely. In contrast with other consumer goods, the Chinese cigarette industry with its vigorous demand has been less affected by the plaque, and is expected to serve as a catalyst for stabilizing consumption sentiment. Besides, its role as the country's stable revenue contributor will become ever more important when export trade and other tax revenues are under immense challenges from all fronts.

In the midst of economic uncertainty and political tensions, the Group will continue to adopt a prudent approach in near future with prime focus on strengthening its capability to deepen its existing clientele by adding more value adding features in its conventional cigarette package products. Besides, the Group will keep improving its product mix to focus more top tier products in view of the authority's tendency to reduce the number of product tiers within the industry. With the proliferation of exotic cigarette package shapes (such as short pack, slim pack and boutique pack) to tap into different customer segments, the Group has been revamping its conventional production facilities to cater for wide varieties of box design and minimal order sizes.

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

During the Period under Review, the revenue of the Group was approximately HK$615.6 million (six months ended 30 June 2019: HK$616.9 million), which represents an insignificant decrease of approximately HK$1.3 million or 0.2% as compared to the corresponding period in 2019. The revenue of our three business segments, namely printing and manufacturing of cigarette package and related materials, manufacturing of laminated papers and sales of RFID products were approximately HK$571.4 million (six months ended 30 June 2019: HK$555.4 million), HK$15.0 million (six months ended 30 June 2019: HK$20.1 million) and HK$29.4 million (six months ended 30 June 2019: HK$41.4 million) respectively.

The stabilization in revenue was mainly attributable to the rapid recovery in business volume of manufacturing and printing of cigarette packages and related materials after production and logistic resumption after nationwide shutdown due to Covid-19 during the Period under Review. However, the depreciation of RMB against HKD of roughly 4.7% comparing with the corresponding period of 2019 has partially reduced such upside effect giving rise to marginal decrease in sales revenue of this segment.

GROSS PROFIT

During the Period under Review, gross profit of the Group increased by 9.2% to approximately HK$135.4 million (six months ended 30 June 2019: HK$123.9 million) as compared to the corresponding period in 2019. The gross profit margin increased to 22.0% during the first half of 2020 (six months ended 30 June 2019: 20.1%).

The average selling price was still under pressure induced by ongoing mandatory tendering system while more than proportionate decrease in the unit material cost and savings brought by increased automation and upstream integration with various material sources helped improve the product profitability compared with the corresponding period in 2019.

OTHER INCOME

Other income during the Period under Review comprises mainly government grants, sales of scrap materials, rental income and interest income of HK$17.8 million, HK$3.7 million, HK$2.8 million and HK$1.2 million respectively.

Other income of the Group increased by HK$7.7 million to HK$27.1 million as compared with the corresponding period in 2019. The increase was mainly attributable to increase in various government grants in regard of Group's continued commitment into research and development and various government-designated investments, HK$0.7 million of which was related to the government's one-off grant specific to Covid-19.

SELLING AND DISTRIBUTION EXPENSES

The selling and distribution expenses decreased by approximately HK$1.5 million to HK$22.1 million or 6.7% compared with corresponding period of last year. The decrease was mainly due to compression of logistic activities into the months from April to June 2020 as work resumed after the Covid-19 shutdown.

ADMINISTRATIVE EXPENSES AND OTHER EXPENSES

During the Period under Review, administrative expenses and other expenses increased by approximately HK$6.5 million or 16.3% compared with the corresponding period in 2019. The increase was mainly attributable to: (1) increase in administration staff cost of about HK$3.5 million brought by incentive scheme; (2) donation of HK$3.8 million for various Covid-19 relief campaigns and (3) decrease in professional fee after successful application of government grants and preferential treatments for some subsidiaries.

FINANCE COSTS

Finance costs decreased by approximately HK$0.5 million or 5.5% as compared with the corresponding period in 2019. Such decrease was mainly due to decrease in the average bank borrowings (albeit the higher bank borrowing level at 30 June 2020) during the Period under Review.

SHARE OF PROFITS OF ASSOCIATES

Share of profits of associates slightly increased by approximately HK$1.5 million to HK$22.3 million during the Period under Review. The increase in net profit of our associates was mainly due to improvement in profitability of the Group's major associate namely Changde Goldroc Rotogravure Printing Co. ("Changde Goldroc") during the Period under Review. Changde Goldroc is principally engaged in provision of cigarette printing packaging service. It has a carrying value of HK$378.8 million, i.e. more than 5% of the Group's total assets of HK$4,055.0 million as at 30 June 2020. The Group beneficially owns RMB50,546,120 of its registered capital at the investment costs of HK$289.3 million representing 31% of the total registered capital of RMB163,052,000). The fair value of Changde Goldroc as at 30 June 2020 was approximately HK$1,198.3 million, During the Period under Review, the Group received dividend of HK$58.5 million from Changde Goldroc. The Group holds the investment in Changde Goldroc for stable earnings and dividend income in view of its stable business with local customer.

TAXATION

The effective tax rate of the Group increased from approximately 17.4% to 18.6% during the Period under Review. Such increase was mainly due to absence of writeback of overprovision of profit tax after successful application of preferential tax treatment of a subsidiary as compared with the corresponding period in 2019.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to the owners of the Company was approximately HK$83.0 million, an increase of approximately HK$6.9 million or 9.1% as compared with the corresponding period in 2019. The increase was mainly due to improved profitability of the Group's major segment of printing and manufacturing of cigarette package and related materials the during the Period under Review.

SEGMENT INFORMATION

During the Period under Review, the revenue from the printing and manufacturing of cigarette packages and related materials, manufacturing of laminated papers and sales of RFID products were approximately HK$571.4 million (six months ended 30 June 2019: HK$555.4 million) and approximately HK$14.9 million (six months ended 30 June 2019: HK$20.1 million) and approximately HK$29.4 million (six months ended 30 June 2019: HK$41.4 million) respectively. Earnings from the printing and manufacturing of cigarette packages and related materials accounted for approximately 96.6% of the total segment earnings before unallocated items. The earnings before unallocated items during the Period under Review from printing and manufacturing of cigarette packages, printing and related materials, manufacturing of laminated papers and sales of RFID products increased by approximately 9.2% to HK$127.6 million, decreased by approximately 52.4% to HK$2.2 million and decreased by approximately 53.1% to HK$2.2 million respectively.

FINANCIAL POSITION AND LIQUIDITY

The Group generally finances its operations with internally generated resources and banking facilities. As at 30 June 2020, the Group had net current assets of approximately HK$316.9 million (as at 31 December 2019: HK$514.5 million) while the Group's cash and cash equivalents amounted to approximately HK$726.2 million (as at 31 December 2019: HK$201.2 million).

The significant increase in net current assets was mainly due to short term accumulation of cash around the end of June 2020 in preparation for payment of the 2019 final dividend and partial repayment of bank borrowings.

As at 30 June 2020, short-term interest-bearing bank borrowings (repayable within one year) of the Group amounted to approximately HK$671.6 million (as at 31 December 2019: HK$256.4 million). Carrying amounts of bank deposits pledged for securing these credit facilities amounted to approximately HK$6.4 million (as at 31 December 2019: HK$9.5 million). As at 30 June 2020, the Group's gearing ratio, represented by the amount of interest-bearing borrowings divided by shareholders equity, was approximately 25.3% (as at 31 December 2019: 8.8%).

In addition, the Group's lease liabilities of approximately HK$2,587,000 are recognized with related right of-use assets of approximately HK$2,696,000 as at 30 June 2020.

CAPITAL COMMITMENTS

As at 30 June 2020, the Group had capital commitments in respect of the acquisition of property, plant, equipment contracted for but not provided in the financial statements amounting to approximately HK$93.3 million (as at 31 December 2019: HK$95.5 million), mainly related to upgrade of the existing machineries.

CONTINGENT LIABILITIES AND GUARANTEES

Save as disclosed in the note 12 to the condensed consolidated financial statements above, the Group had no material contingent liabilities as at 30 June 2020. Besides, the Group did not provide any guarantee to third party.

MATERIAL ACQUISITION AND DISPOSAL

There was no material acquisition or disposal of subsidiaries, associates or joint ventures by the Group during the Period under Review.

TREASURY POLICIES

The Group adopted a prudent strategy towards the treasury and funding policies, and attached high importance to the risk control and transactions directly related to the Group's principal business. Funds, primarily denominated in HKD and RMB, are normally placed with banks in short- or medium-term deposits for working capital of the Group.

CAPITAL STRUCTURE

During the Period under Review, the Group's operation was mainly financed by funds generated from its operation and bank borrowings. As at 30 June 2020, bank borrowings were mainly denominated in HKD and RMB, while the cash and cash equivalents held by the Group were mainly denominated in HKD and RMB. The Group's turnover is mainly denominated in RMB, while its costs and expenses are mainly denominated in HKD and RMB. In view of the prevailing macro-economic environment, the Group may be exposed to the foreign exchange rate risk. The Group will closely monitor the volatility of foreign exchange rate and apply the appropriate hedging strategy as and when appropriate.

There was no equity fund raising by the Company during the Period under Review, nor were there any proceeds brought forward from any issue of equity securities made in previous financial years.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2020, assets with carrying amount of approximately HK$6.5 million (31 December 2019: HK$9.5 million) were pledged to banks in respect of banking facilities granted to the Group.

SIGNIFICANT INVESTMENT AND FUTURE PLAN

The Group beneficially owns certain equity interests of Changde Goldroc and Tianjin Rong Lian Hui Zhi Intelligence Packaging Technology Co., Ltd which are classified as investment in associates.

Looking ahead, as mentioned in the paragraph headed "PROSPECT" above, the Group endeavors to generate high value adding service to our stakeholders, be geared with growth driver by organic growth and explore opportunities for strategic and synergistic partners including but not limited to merger and acquisition(s), and formation of joint venture(s) or other corporate action(s) in the future should they be in the interest of the Company and its shareholders as a whole. It does not preclude the possibility of fund raising when it is needed or opportunity arises.

HUMAN RESOURCES

As at 30 June 2020, the Group had 5 and 1,395 full-time staff based in Hong Kong and the PRC respectively. The Group's remuneration packages are generally structured with reference to market terms and individual merits. The Group operates a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' base salaries. The Group also made contributions to provident funds, elderly insurance, medical insurance, unemployment insurance and work-related injury insurance in accordance with appropriate laws and regulations in the PRC.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period under Review.

CORPORATE GOVERNANCE

The Company has adopted the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules. For the Period under Review, the Company has complied in general with the Code, except code provisions A.6.7 and E.1.2 of the Code as Ms. Li Li (the non-executive director) was unable to attend the annual general meeting of the Company held on 5 June 2020 due to her other business engagement.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has redeemed, purchased or sold any of the Company's shares during the Period under Review.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control, risk management and financial reporting matters including a review of the unaudited condensed consolidated financial statements for the Period under Review with the Directors. In addition, the interim financial information of the Group for the Period under Review has also been reviewed by the independent auditor of the Company, Deloitte Touche Tohmatsu. The audit committee comprises the three independent non-executive Directors and the non-executive Director.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to its customers and shareholders for their continuing support as well as its staff for their dedication and hard work.

By Order of the Board
Brilliant Circle Holdings International Limited
Chen Xiao Liang
Chairman

Hong Kong, 26 August 2020

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Chen Xiao Liang (Chairman), Mr. Qin Song (Vice Chairman and Chief Executive Officer) Mr. Huang Wanru and Ms. Zheng Jinghui, one non-executive Director, namely, Ms. Li Li, and three independent non-executive Directors, namely, Mr. Lui Tin Nang, Mr. Lam Ying Hung, Andy and Mr. Siu Man Ho, Simon.