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ALLAN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 684)

INTERIM RESULTS 2019/2020

RESULTS

The board of directors of Allan International Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2019 together with the comparative figures for the six months ended 30 September 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

		Six months ended 30 September	
		2019	2018
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	568,691	644,216
Cost of sales		(492,679)	(613,806)
Gross profit		76,012	30,410
Other income	4	9,451	24,481
Other gains and losses		4,844	3,537
Selling and distribution expenses		(10,983)	(12,541)
Administrative expenses		(51,656)	(52,366)
(Loss) gain from changes in fair value of investment properties		(21,995)	44,400
Impairment losses under expected credit model, net of reversal		(253)	(393)
Finance costs on bank loan		(586)	(420)
Profit before tax		4,834	37,108
Income tax expense	5	(3,687)	(874)
Profit for the period		1,147	36,234

		Six months ended 30 September	
		2019	2018
	<i>NOTES</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of manufactory plants and right-of-use assets transferred to investment properties	8	114,410	—
Deferred taxation on gain on revaluation of manufactory plants and right-of-use assets transferred to investment properties	8	<u>(28,603)</u>	—
		<u>85,807</u>	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(14,215)	(10,230)
Net fair value gain (loss) on debt instruments at fair value through other comprehensive income		408	(386)
Reclassified to profit or loss upon disposal of debt instruments at fair value through other comprehensive income		—	<u>(16)</u>
		<u>(13,807)</u>	<u>(10,632)</u>
Other comprehensive income (expense) for the period		<u>72,000</u>	<u>(10,632)</u>
Total comprehensive income for the period		<u><u>73,147</u></u>	<u><u>25,602</u></u>
Earnings per share	6		
Basic		<u><u>HK0.34 cents</u></u>	<u><u>HK10.80 cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2019

		30 September	31 March
		2019	2019
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Investment properties	8	525,840	327,400
Property, plant and equipment	9	49,999	154,654
Right-of-use assets		4,418	—
Prepaid lease payments		—	19,221
Club debentures		13,176	13,176
Deposits paid for acquisition of property, plant and equipment		2,498	1,174
		595,931	515,625
Current assets			
Inventories		72,157	76,180
Trade receivables	10	261,563	250,535
Other receivables		16,462	16,967
Mould deposits paid		9,494	11,179
Prepaid lease payments		—	608
Financial assets at fair value through profit or loss		35,805	35,156
Debt instruments at fair value through other comprehensive income		27,591	31,108
Tax recoverable		529	810
Short-term deposits		201,240	160,641
Bank balances and cash		387,517	397,949
		1,012,358	981,133
Current liabilities			
Trade payables	11	182,175	140,835
Other payables and accruals		99,030	110,627
Mould deposits received		22,649	31,148
Tax liabilities		37,560	36,740
Secured bank loan — due within one year		5,124	5,124
		346,538	324,474
Net current assets		665,820	656,659
Total assets less current liabilities		1,261,751	1,172,284

		30 September 2019	31 March 2019
	<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current liabilities			
Deferred tax liabilities		36,198	7,253
Secured bank loan — due after one year		28,599	31,161
		<u>64,797</u>	<u>38,414</u>
Net assets		<u>1,196,954</u>	<u>1,133,870</u>
Capital and reserves			
Share capital	12	33,543	33,543
Reserves		1,163,411	1,100,327
		<u>1,196,954</u>	<u>1,133,870</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the 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 (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), and accounting policies disclosed below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 March 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the new 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.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (“HKFRS 16”)

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* (“HKAS 17”), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of staff quarter and office that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses.

The cost of right-of-use asset includes any lease payments made at or before commencement date.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment properties as a separate line item on the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within “investment properties”.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 April 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* (“HKFRS 15”) to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019. Any difference, if any, at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The carrying amount of right-of-use assets as at 1 April 2019 comprises the following:

	<i>Notes</i>	At 1 April 2019 <i>HK\$'000</i> (Unaudited)
Reclassified from property, plant and equipment	(a)	120
Reclassified from prepaid lease payments	(b)	<u>19,829</u>
		<u>19,949</u>
By class:		
Leasehold lands		<u>19,949</u>

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 April 2019. Line items that were not affected by the changes have not been included.

	<i>Notes</i>	Carrying amounts previously reported at 31 March 2019 <i>HK\$'000</i> (Audited)	Adjustments <i>HK\$'000</i> (Unaudited)	Carrying amounts under HKFRS 16 at 1 April 2019 <i>HK\$'000</i> (Unaudited)
Non-current assets				
Right-of-use assets		—	19,949	19,949
Property, plant and equipment	(a)	154,654	(120)	154,534
Prepaid lease payments	(b)	19,221	(19,221)	—
Current asset				
Prepaid lease payments	(b)	608	(608)	—

Notes:

- (a) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 April 2019 amounting to HK\$120,000 as right-of-use assets.
- (b) Upfront payments for leasehold lands in the People's Republic of China (the "PRC") were classified as prepaid lease payments as at 31 March 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$608,000 and HK\$19,221,000, respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (a) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. No adjustments were made to refundable rental deposits received and advance lease payments as the directors of the Company determined the impact was immaterial to the condensed consolidated financial statements of the Group for the current period.
- (b) Effective on 1 April 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

2.2 Accounting policies on property, plant and equipment

Transfer from owner-occupied property to investment property carried at fair value

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant prepaid lease payments) at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

2.3 Significant changes in significant judgements

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios in Hong Kong and PRC, and concluded that the Group's investment properties in Hong Kong are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties in Hong Kong, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group has not recognised any deferred taxes on changes in fair value of investment properties in Hong Kong as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

The directors of the Company concluded that the Group's investment properties in PRC are held under a business model whose objective is to earn rental which consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties in PRC, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. The Group has recognised deferred taxes on changes in fair value of investment properties in PRC as the Group is subject to income tax rate of 25% on the fair value changes of the investment properties.

3. REVENUE AND SEGMENT INFORMATION

The principal activities of the Group are manufacturing and trading of household electrical appliance. Revenue of the Group are sales of household electrical appliance.

As at 30 September 2019, all received purchase orders are expected to be completed within 1 year.

Information reported to the Company's executive directors, the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on geographical regions.

The Group is currently organised into four operating divisions – Europe sales, America sales, Asia sales and other regions sales. The information reported to the Group's CODM for the purposes of resource allocation and assessment of performance is based on these operating divisions. During the six months ended 30 September 2019, the Group had no material change in segment assets and segment liabilities.

The following is an analysis of the Group's revenues and results for each of the reportable and operating segments.

Six months ended 30 September 2019

	Europe <i>HK\$'000</i> (Unaudited)	America <i>HK\$'000</i> (Unaudited)	Asia <i>HK\$'000</i> (Unaudited)	Other regions <i>HK\$'000</i> (Unaudited) <i>(Note a)</i>	Consolidated <i>HK\$'000</i> (Unaudited)
Segment revenue <i>(Note a)</i>	<u>246,665</u>	<u>206,970</u>	<u>92,054</u>	<u>23,002</u>	<u>568,691</u>
Segment profit	<u>14,460</u>	<u>12,133</u>	<u>5,397</u>	<u>1,348</u>	33,338
Other gains and losses (except net foreign exchange gain)					986
Depreciation (except moulds)					(8,023)
Loss from changes in fair value of investment properties					(21,995)
Finance costs on bank loan					(586)
Unallocated income and expenses, net <i>(Note b)</i>					<u>1,114</u>
Profit before tax					<u><u>4,834</u></u>

Six months ended 30 September 2018

	Europe <i>HK\$'000</i> (Unaudited)	America <i>HK\$'000</i> (Unaudited)	Asia <i>HK\$'000</i> (Unaudited)	Other regions <i>HK\$'000</i> (Unaudited) <i>(Note a)</i>	Consolidated <i>HK\$'000</i> (Unaudited)
Segment revenue <i>(Note a)</i>	<u>292,013</u>	<u>178,142</u>	<u>152,366</u>	<u>21,695</u>	<u>644,216</u>
Segment loss	<u>(3,469)</u>	<u>(2,116)</u>	<u>(1,810)</u>	<u>(258)</u>	(7,653)
Other gains and losses (except net foreign exchange gain)					(236)
Depreciation (except moulds)					(14,006)
Gain from changes in fair value of investment properties					44,400
Finance costs on bank loan					(420)
Unallocated income and expenses, net <i>(Note b)</i>					<u>15,023</u>
Profit before tax					<u>37,108</u>

Notes:

- (a) The allocation of segment revenue is determined based on destinations of shipment of products.
- (b) Unallocated income and expenses, net, represented other income, central administration costs and directors' salaries.

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of other income, central administration cost and directors' salaries, other gains and losses (except net foreign exchange gain), depreciation (except for moulds), (loss) gain from changes in fair value of investment properties and finance costs on bank loans. This is the measure reported to the Group's CODM for the purposes of resource allocation and performance assessment. Revenue reported above represents revenue generated from external customers. There is no inter-segment sales in both periods.

4. OTHER INCOME

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Rental income	4,147	3,462
Interest income	3,470	1,907
Amortisation of deferred income	—	17,649
Building management fee income	1,215	473
Others	619	990
	<u>9,451</u>	<u>24,481</u>

7. DIVIDENDS

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period		
2019 final dividend of HK3 cents (2018: HK6 cents for 2018 final dividend) per ordinary share	<u>10,063</u>	<u>20,126</u>

Subsequent to 30 September 2019, the board of directors has declared that an interim dividend of HK2 cents per share (2018: HK1 cent per share) amounting to HK\$6,709,000 in aggregate (2018: HK\$3,354,000) will be paid on 16 January 2020 to the shareholders of the Company whose names appear on the Register of Members 23 December 2019.

8. INVESTMENT PROPERTIES

Manufactory plants with carrying values of HK\$103,085,000 and the related right-of-use assets with carrying value of HK\$15,452,000 were transferred to investment properties on 1 April 2019 and measured using the fair value model. The fair value of the property and the right-of-use assets on the date of transfer was HK\$232,947,000 in aggregate, resulting in a revaluation gain of HK\$114,410,000 and a deferred tax of HK\$28,603,000, in other comprehensive income and accumulated in property revaluation reserve. On 10 April 2019, the Group has leased a portion of the manufactory plants to an independent third party.

Other than the transfer from property, plant and equipment mentioned above, during the current interim period, the Group's additions on investment properties located in the PRC were approximately HK\$1,425,000 (six months ended 30 September 2018: nil).

The Group's investment properties as at the end of the current interim period were fair valued by RHL Appraisal Ltd., a firm of independent qualified professional surveyor not connected to the Group. The fair value of investment properties located in Hong Kong was determined based on the direct comparison method by reference to market evidence of transaction prices for similar properties in the same locations and the fair value of investment properties located in the PRC was determined based on term and reversion analysis of investment method by capitalising rental income on a fully leased basis having regard to the current passing rental income from existing tenancy and the potential reversionary rental income at market level. The resulting net decrease (increase) in fair value of investment properties of HK\$21,995,000 (six months ended 30 September 2018: HK\$44,400,000) has been recognised directly in profit or loss for the six months ended 30 September 2019.

9. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group's additions on property, plant and equipment were approximately HK\$10,067,000 (six months ended 30 September 2018: HK\$5,787,000). The additions mainly comprised HK\$2,554,000 spent on plant and machinery (six months ended 30 September 2018: HK\$642,000), HK\$495,000 spent on motor vehicles (six months ended 30 September 2018: HK\$829,000), HK\$5,869,000 on furniture, fixtures and equipment (six months ended 30 September 2018: HK\$1,865,000), HK\$1,149,000 on moulds and tools (six months ended 30 September 2018: HK\$510,000) and nil on construction in progress (six months ended 30 September 2018: HK\$1,941,000). In addition, manufactory plants of HK\$103,085,000 were transferred to investment properties as disclosed in note 8. No material disposal of property, plant and equipment was made during both periods.

10. TRADE RECEIVABLES

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Trade receivable		
— sales of goods	263,129	251,848
Less: Allowance for credit loss	<u>(1,566)</u>	<u>(1,313)</u>
	<u>261,563</u>	<u>250,535</u>

The Group allows an average defined credit period up to 90 days to its trade customers. The following is an analysis of trade receivables by age, presented based on the invoice date, which approximated the revenue recognition date:

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
0 – 90 days	219,592	198,339
91–120 days	41,773	51,909
> 120 days	<u>1,764</u>	<u>1,600</u>
	<u>263,129</u>	<u>251,848</u>

11. TRADE PAYABLES

The following is an analysis of trade payables, by age, presented based on the invoice date:

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
0 – 90 days	158,611	130,535
91–120 days	20,334	8,505
> 120 days	3,230	1,795
	<u>182,175</u>	<u>140,835</u>

12. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 April 2018, 30 September 2018, 1 April 2019 and 30 September 2019	<u>600,000,000</u>	<u>60,000</u>
Issued and fully paid:		
At 1 April 2018, 30 September 2018, 1 April 2019 and 30 September 2019	<u>335,432,520</u>	<u>33,543</u>

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 September 2019, the Group's sales turnover decreased by 12% to HK\$568,691,000 (2018: HK\$644,216,000) and the consolidated net profit decreased by 97% to HK\$1,147,000 (2018: HK\$36,234,000). Basic earnings per share of the Group for the six months ended 30 September 2019 was HK0.34 cents (2018: HK10.80 cents). The Board of Directors has resolved that an interim dividend of HK2 cents (2018: HK\$1 cent) per share would be paid on 16 January 2020 to shareholders registered on 23 December 2019.

BUSINESS REVIEW

The Group is engaged in design, manufacturing and trading of a wide range of household electrical appliances.

For the six months ended 30 September 2019, sales turnover decreased by 12% to HK\$568,691,000. During the period, business suffered due to keen competition within the industry, volatile business environment and sluggish customer sentiments. Sales turnover to Europe decreased by 16% to HK\$246,665,000 representing 44% of the Group's sales turnover. Sales turnover to America increased by 16% to HK\$206,970,000 representing 36% of the Group's sales turnover. Sales turnover to Asia decreased by 40% to HK\$92,054,000 representing 16% of the Group's sales turnover. Sales turnover to other markets increased by 6% to HK\$23,002,000 representing 4% of the Group's sales turnover.

For the six months ended 30 September 2019, approximately 15% of our sales turnover was affected by the Sino-US trade war and subject to tariffs going into the USA. A few customers were affected when List 3 and List 4A became effective on 28 September 2018 and 1 September 2019 respectively. These customers were bearing the tariff costs themselves. To mitigate the US tariff impact, we have been actively seeking non-PRC manufacturing partners overseas.

Gross profit for the six months ended 30 September 2019 increased by 150% to HK\$76,012,000 (2018: HK\$30,410,000). Gross profit margin increased from 5% to 13%. The increase in gross profit margin was mainly due to stabilising material costs, depreciation of the Renminbi and the cost savings from the consolidation of manufacturing facilities into one single location at Lilin in Huizhou, PRC. The relocation commenced in April 2019 and was completed smoothly.

An amortisation of deferred income of HK\$17,649,000 arising from the sale and leaseback arrangement of the Group's previous main office at 12/F, Zung Fu Industrial Building, 1067 King's Road, Hong Kong was recorded under other income for the six months ended 30 September 2018. Since the sales price of the property was above its fair value, the excess over fair value was deferred and amortized over the lease term of three years. The lease was early terminated at end of September 2018 and hence no such income was recorded for the current period.

We continued to apply stringent cost control measures to all aspects of our operations. Selling and distribution costs decreased by 12.4% to HK\$10,983,000 (2018: HK\$12,541,000). As a percentage to sales turnover, selling and distribution costs maintained at 1.9% as compared to corresponding period last year. Administrative expenses decreased by 1.4% to HK\$51,656,000 (2018: HK\$52,366,000). As a percentage to sales turnover, administrative expenses increased from 8.1% to 9.1% as compared to corresponding period last year.

Investment properties located in Wanchai, Hong Kong were revaluated at HK\$305,400,000 at 30 September 2019 (31 March 2019: HK\$327,400,000), resulting in a decrease in fair value of HK\$22,000,000 for the period under review. During the same period for the previous year, there had been an increase in fair value of HK\$44,400,000 from the same investment properties in Hong Kong.

Subsequent to the relocation of the operation of the factories located in Hui Nan Hi-Tech Industrial Park, the site including the three factory blocks with carrying value of RMB101,313,000 (HK\$118,537,000) were reclassified as investment properties. This was revaluated at 1 April 2019 at RMB199,100,000 (HK\$232,947,000), resulting in a revaluation gain of HK\$114,410,000 in other comprehensive income and accumulated in property revaluation reserve. At 30 September 2019, this investment properties was revaluated at RMB200,400,000 (HK\$220,440,000) giving rise to an increase in fair value of HK\$5,000 and a translation loss of HK\$14,011,000. Currently, one factory block has been leased out since April 2019 to an independent third party.

Net profit decreased by 97% to HK\$1,147,000 (2018: HK\$36,234,000). Net profit margin decreased from 5.6% to 0.2% as compared to corresponding period last year. If the effect of changes in fair value of investment properties is segregated, the operating net profit would be HK\$23,142,000 (2018: loss of HK\$8,166,000) representing a net operating profit of 4.1% (2018: loss of 1.3%)

BUSINESS OUTLOOK

It is quite impossible to predict the outlook amidst the current business environment and economic conditions. The BREXIT situation and effects are still uncertain. The Sino-US trade war is still on-going and unresolved. If the List 4B becomes effective on 15 December 2019, then all our sales into the USA would be affected and subject to US tariffs. In the event of this happening, it would definitely impact the Group adversely as approximately 32% of the Group's sales turnover is export to the USA during the six months under review. Although our customers will be bearing the tariffs, it would no doubt cause hesitation from our customers to place orders from the PRC. As such, to mitigate the negative impact, we are actively seeking non-PRC manufacturing partners overseas.

We will continue to stay focused in our core business and invest in our engineering and R&D capabilities to offer total project management with unique and innovative product platforms to our customers. We will continue to seek growth through expansion in our customer base and product base and look for new business opportunities to create greater value to our shareholders.

The vacating of the two remaining factory blocks located in Hui Nan Hi-Tech Industrial Park was completed. We will seek suitable tenants for the two factory blocks. We would also closely monitor the market condition and development policy in Huizhou so as to realise the value of the investment properties situated in Hui Nan Hi-Tech Industrial Park.

With our prudent and pragmatic business approach, financial strength and commitment to excel, we will strive on and tread cautiously to ride through the current and coming difficulties and challenges.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2019, the Group had total assets of HK\$1,608,289,000 (31 March 2019: HK\$1,496,758,000) which was financed by current liabilities of HK\$346,538,000 (31 March 2019: HK\$324,474,000), long-term liabilities and deferred taxation of HK\$64,797,000 (31 March 2019: HK\$38,414,000) and shareholders' equity of HK\$1,196,954,000 (31 March 2019: HK\$1,133,870,000).

The Group continued to maintain a strong and healthy balance sheet and liquidity position. As at 30 September 2019, the Group held HK\$588,757,000 (31 March 2019: HK\$558,590,000) in cash and bank deposits. They were mainly placed in Renminbi and US dollar short term deposits, except for temporary balances held in other currencies as required pending specific payments. As at the same date, total borrowings were HK\$33,723,000 (31 March 2019: HK\$36,285,000) and the gearing ratio (ratio of borrowings to shareholders' equity) was 2.8% (31 March 2019: 3.2%).

We continue to apply stringent control over the working capital cycle. The inventory balance as at 30 September 2019 was HK\$72,157,000 (31 March 2019: HK\$76,180,000). Inventory turnover improved from 29 days to 27 days. The trade receivables balance as at 30 September 2019 was HK\$261,563,000 (31 March 2019: HK\$250,535,000). Trade receivables turnover increased from 76 days to 84 days. The trade payables balance as at 30 September 2019 was HK\$182,175,000 (31 March 2019: HK\$140,835,000). Trade payables turnover increased from 46 days to 67 days.

Funding for day-to-day operational working capital and capital expenditures are to be serviced by internal cash flow and available banking facilities. For the six months ended 30 September 2019, the Group invested HK\$10,067,000 (2018: HK\$5,787,000) in property, plant and machinery, mould and tools, equipment, computer systems and other tangible assets for expansion and upgrade to our manufacturing facilities. These investments were funded by internal resources. With our healthy financial position and available banking

facilities, the Group is able to provide sufficient financial resources for our current commitments, working capital requirements, further expansions of the Group's business operations and future investment opportunities, as and when required.

The majority of the group's assets and liabilities and business transactions were denominated in Hong Kong dollars, US dollars and Renminbi. Currently, the Group does not implement hedging activity to hedge against foreign currency exposure. However, we will closely monitor foreign currency exposure and consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

As at 30 September 2019, the Group did not have any significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2019, the Group employed approximately 2,650 employees (2018: 3,380). The majority of our employees work in the PRC. The Group remunerated our employees based on their performances, experiences and prevailing market rates while performance bonuses are granted on a discretionary basis. Share options may also be granted to employees based on individual performance and attainment of certain set targets.

CLOSURE OF REGISTER

The Register of Shareholders will be closed from 19 December 2019 to 23 December 2019, both days inclusive, during which period no transfer of shares will be effected.

All transfers, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Tricor Standard Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 18 December 2019 in order to qualify for the interim dividend above mentioned.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2019, there was no purchase, sale or redemption of the shares by the Company or any of its subsidiaries.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all the applicable code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) for the six months ended 30 September 2019, except for the deviations herein below mentioned:

The CG Code Provision A.4.1

Under this code provision, the non-executive directors should be appointed for a specific term, subject to re-election.

Currently, none of the non-executive directors is appointed for a specific term. However, all non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Bye-laws of the Company, and the terms of their appointment will be reviewed when they are due for re-election. As such, the Board considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those set out in the CG Code.

The CG Code Provision A.4.2

Under this code provision, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Bye-laws of the Company, one third of the directors are subject to rotation at each annual general meeting and the Chairman and/or the Managing Director of the Company is not subject to retirement by rotation, which constitutes a deviation from the CG Code Provision A.4.2. The reason for the deviation is that the Directors of the Company do not consider that arbitrary term limits on Director’s service are appropriate and the retirement by rotation has given the Company’s shareholders the right to approve continuation of the service of the directors.

Further, Code Provision A.4.2 of Appendix 14 to the Listing Rules states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting subject to retirement by rotation at least once every three years.

Due to the oversight of the board of directors of the Company, a resolution was not proposed at the annual general meeting of the Company held on 28 August 2019 to re-elect Ms. Choy Wai Sheun, Susan as an independent non-executive director. As a result, Ms. Choy has ceased to be an independent non-executive director upon the conclusion of the AGM.

The CG Code Provision A.5.1

Under this code provision, the Company should establish a nomination committee.

Currently, the Company does not have a nomination committee. The Board will identify individuals suitably qualified to become board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account of his/her experience, qualification and other relevant factors. All candidates must also meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The CG Code Provision A.6.7

Under this code provision, independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders.

An independent non-executive director and a non-executive director, did not attend the annual general meeting of the Company held on 28 August 2019 due to other business engagements.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its Code of Conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed that they have complied with the required standards set out in the Model Code as provided in Appendix 10 of the Listing Rules.

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee and the external auditors have reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2019. The Committee now comprises three independent non-executive directors of the Company.

PUBLICATION OF FINANCIAL INFORMATION

This results announcement is published on the website of The Stock Exchange of Hong Kong Limited at <http://www.hkexnews.hk> (the "HKEx website") and the Company's website at <http://www.allan.com.hk>.

The Company's interim report containing all information required by the Listing Rules will also be available for viewing on the HKEx website and the Company's website, and dispatched to shareholders in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation to our employees, shareholders and business associates for their continual contribution and support throughout the year.

By Order of the Board
Allan International Holdings Limited
Cheung Shu Wan
Managing Director

Hong Kong, 29 November 2019

As at the date of this announcement, the Executive Directors are Ms. Cheung Lai Chun, Maggie (Chairman), Mr. Cheung Shu Wan (Managing Director), Ms. Cheung Lai See, Sophie and Dr. Cheung Shu Sang, William. The Non-Executive Director is Mr. Cheung Lun (Honorary Chairman). The Independent Non-Executive Directors are Ms. Choy Wai Sheun, Susan, Mr. Lai Ah Ming, Leon and Professor Lo Chung Mau.