PERFECTECH INTERNATIONAL HOLDINGS LIMITED
(威發國際集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00765)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

RESULTS

For the reasons explained below under "Review of Unaudited Annual Results", the auditing process for the annual results of Perfectech International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") has not been completed. In the meantime, the board (the "Board") of directors (the "Directors", and each a "Director") of the Company hereby announces the unaudited consolidated results of the Group for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** ***HK$'000*** **(unaudited)**	2018 *HK$'000* (audited)
Revenue	3 & 4	**141,936**	145,251
Cost of sales		**(111,395)**	(130,158)
Gross profit		**30,541**	15,093
Other income, gains and losses	5	**7,188**	4,848
Distribution costs		**(3,648)**	(3,168)
Loss from changes in fair value of an investment property		**(3,000)**	(1,000)
Administrative expenses		**(81,303)**	(54,246)
Finance costs	6	**(2,197)**	(124)
Loss before tax	7	**(52,419)**	(38,597)
Income tax (expense) credit	8	**(4,838)**	217
Loss for the year		**(57,257)**	(38,380)

* *For identification purposes only*

	Notes	**2019** **HK$'000** **(unaudited)**	2018 HK$'000 (audited)
Other comprehensive income (expense) for the year, net of tax			
Item that will not be reclassified to profit or loss:			
Surplus on revaluation of leasehold land and building held for own use upon transfer to investment property		**16,701**	—
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of overseas operations		**(483)**	(2,105)
Other comprehensive income (expense) for the year, net of tax		**16,218**	(2,105)
Total comprehensive expense for the year		**(41,039)**	(40,485)
Loss for the year attributable to:			
Owners of the Company		**(55,038)**	(36,424)
Non-controlling interests		**(2,219)**	(1,956)
Loss for the year		**(57,257)**	(38,380)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(38,740)**	(38,268)
Non-controlling interests		**(2,299)**	(2,217)
Total comprehensive expense for the year		**(41,039)**	(40,485)
Loss per share	10		
Basic (HK cents per share)		**(16.84)**	(11.14)
Diluted (HK cents per share)		**(16.84)**	(11.14)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	**2019** ***HK$'000*** **(unaudited)**	2018 *HK$'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**61,455**	85,194
Investment property		**39,900**	—
Right-of-use assets		**15,051**	—
Deferred tax assets		**3,688**	8,678
		120,094	93,872
CURRENT ASSETS			
Inventories		**16,196**	11,866
Trade and other receivables	11	**15,415**	21,472
Tax recoverable		**855**	664
Bank balances and cash		**70,403**	73,946
		102,869	107,948
CURRENT LIABILITIES			
Trade and other payables	12	**21,541**	17,800
Lease liabilities		**415**	—
Amount due to a former director of subsidiaries	13	**47,587**	—
Bank borrowings		**5,000**	7,000
Bank overdraft		**—**	2,478
Tax liabilities		**64**	—
		74,607	27,278
NET CURRENT ASSETS		**28,262**	80,670
TOTAL ASSETS LESS CURRENT LIABILITIES		**148,356**	174,542
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**—**	62
Lease liabilities		**14,915**	—
		14,915	62
NET ASSETS		**133,441**	174,480

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
CAPITAL AND RESERVES		
Share capital	**32,692**	32,692
Reserves	**86,879**	125,619
Equity attributable to owners of the Company	**119,571**	158,311
Non-controlling interests	**13,870**	16,169
TOTAL EQUITY	**133,441**	174,480

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments that are measured at fair value at the end of each reporting period. Historical cost is generally based on fair value of the consideration given in exchange for goods and services.

The principal activities of the Group are the manufacture and sale of novelties, decoration and toy products.

The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the HKICPA for the first time in the current year:

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 for HKFRS 16 Leases ("HKFRS 16"), the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 Impacts and changes in accounting policies on application of HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. 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

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and lease of low-value assets

The Group applies the short-term lease recognition exemption to leases 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 and leases of low-value assets are recognised as expense on a straight line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, 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). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life.

Otherwise, 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 as a separate line item on the consolidated statement of financial position.

<u>Leasehold land and building</u>

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 property.

<u>Refundable rental deposits</u>

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

<u>Lease liabilities</u>

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

- variable lease payments that depend on an index or a rate;

- amounts expected to be paid under residual value guarantees;

- the exercise price of a purchase option reasonably certain to be exercised by the Group; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes requirements* to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 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 and initially measured at fair value. Subsequently, adjustments to fair value 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 January 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, on 1 January 2019. Any difference 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;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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

The Group recognised lease liabilities of approximately HK$16,233,000 and right-of-use assets of approximately HK$16,233,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied range from 3% to 6.08% per annum.

	At 1 January 2019 *HK$'000* **(unaudited)**
Operating lease commitments disclosed as at 31 December 2018	**32,355**
Less: Recognition exemption — short-term leases and lease of low-value assets	**(3,286)**
	29,069
Less: total future interest expenses	**(12,836)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	**16,233**
Analysed as	
Current	**627**
Non-current	**15,606**
	16,233

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

	Carrying amounts previously reported at 31 December 2018 *HK$'000* (audited)	Adjustments *HK$'000* (unaudited)	Carrying amounts under HKFRS 16 at 1 January 2019 *HK$'000* (unaudited)
Non-current Assets			
Right-of-use assets	—	16,233	16,233
Current Liabilities			
Lease liabilities	—	627	627
Non-current Liabilities			
Lease liabilities	—	15,606	15,606

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

3 Effective date to be determined

4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised *Conceptual Framework for Financial Reporting* was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

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 year.

	2019 ***HK$'000*** **(unaudited)**	2018 *HK$'000* (audited)
Revenue from contracts with customers recognised at a point in time:		
Novelties and decoration products	**13,733**	17,670
Toy products	**128,203**	127,581
	141,936	145,251

4. SEGMENTS 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 sale of toy products.

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

2019

	Novelties and decoration products *HK$'000* (unaudited)	Toy products *HK$'000* (unaudited)	Consolidated *HK$'000* (unaudited)
REVENUE			
External sales and total revenue	**13,733**	**128,203**	**141,936**
RESULT			
Segment results	**(3,377)**	**(23,454)**	**(26,831)**
Loss from changes in fair value of an investment property			**(3,000)**
Unallocated corporate expenses, net			**(20,391)**
Finance costs			**(2,197)**
Loss before tax			**(52,419)**
Income tax expense			**(4,838)**
Loss for the year			**(57,257)**

	Novelties and decoration products *HK$'000* (unaudited)	Toy products *HK$'000* (unaudited)	Consolidated *HK$'000* (unaudited)
ASSETS			
Segment assets	**29,357**	**81,972**	**111,329**
Unallocated corporate assets			**111,634**
Consolidated total assets			**222,963**
LIABILITIES			
Segment liabilities	**25,311**	**62,597**	**87,908**
Unallocated corporate liabilities			**1,614**
Consolidated total liabilities			**89,522**

	Novelties and decoration products *HK$'000* (unaudited)	Toy products *HK$'000* (unaudited)	Unallocated *HK$'000* (unaudited)	Consolidated *HK$'000* (unaudited)
Additions of property, plant and equipment	**60**	**9,147**	**1,391**	**10,598**
Depreciation of property, plant and equipment	**462**	**5,134**	**1,932**	**7,528**
Depreciation of right-of-use assets	**667**	**—**	**285**	**952**
Interest income	**6**	**32**	**626**	**664**

2018

	Novelties and decoration products *HK$'000* (audited)	Toy products *HK$'000* (audited)	Consolidated *HK$'000* (audited)
REVENUE			
External sales and total revenue	17,670	127,581	145,251
RESULT			
Segment results	(6,236)	(17,393)	(23,629)
Loss from changes in fair value of an investment property			(1,000)
Unallocated corporate expenses, net			(13,844)
Finance costs			(124)
Loss before tax			(38,597)
Income tax credit			217
Loss for the year			(38,380)

	Novelties and decoration products *HK$'000* (audited)	Toy products *HK$'000* (audited)	Consolidated *HK$'000* (audited)
ASSETS			
Segment assets	14,187	62,270	76,457
Unallocated corporate assets			125,363
Consolidated total assets			201,820
LIABILITIES			
Segment liabilities	4,740	21,382	26,122
Unallocated corporate liabilities			1,218
Consolidated total liabilities			27,340

	Novelties and decoration products *HK$'000* (audited)	Toy products *HK$'000* (audited)	Unallocated *HK$'000* (audited)	Consolidated *HK$'000* (audited)
Additions of property, plant and equipment	—	3,043	5	3,048
Depreciation of property, plant and equipment	579	5,361	1,115	7,055
Interest income	7	20	165	192

Segment result represents the result produced by each segment without allocation of central administration costs including directors' salaries, other income, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

- all assets are allocated to operating segments other than certain financial assets, investment property, and leasehold land and building which are held for central administrative purpose. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to operating segments other than certain financial liabilities incurred for central administrative purpose. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

Geographical Information

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

	2019 ***HK$'000*** **(unaudited)**	2018 *HK$'000* (audited)
Sales revenue by geographical market:		
Hong Kong	**8,929**	10,061
Europe	**14,914**	19,899
United States of America	**1,180**	19,007
Asia (other than Hong Kong)	**116,453**	95,857
Others	**460**	427
	141,936	145,251

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(audited)	**(unaudited)**	(audited)
Hong Kong	**155,060**	154,595	**1,391**	272
The People's Republic of China (the "PRC")	**67,903**	47,225	**9,207**	2,776
	222,963	201,820	**10,598**	3,048

Information about major customer

Included in revenue arising from sales of toy products of approximately HK$128,203,000 (2018: HK$127,581,000) is revenue of approximately HK$116,875,000 (2018: HK119,674,000) which arose from sales to the Group's largest customer, representing approximately 82% (2018: approximately 82%) of the total revenue.

5. OTHER INCOME, GAINS AND LOSSES

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Interest income from financial assets held for cash management purposes	**664**	192
Rental income from investment property	**611**	—
Scrap sales	**2,294**	2,061
Gain (loss) on disposal of property, plant and equipment	**531**	(1,176)
(Loss) gain on deregistration of subsidiary	**(256)**	881
Net foreign exchange gains	**570**	833
Gain on termination of a lease	**1**	—
Tooling income	**1,917**	1,446
Laboratory testing income	**437**	139
Others	**419**	472
	7,188	4,848

6. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Interest on:		
Bank borrowings	**418**	93
Bank overdraft	**93**	31
Lease liabilities	**874**	—
Amount due to a former director of subsidiaries	**812**	—
	2,197	124

7. LOSS BEFORE TAX

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Loss before tax has been arrived at after charging (crediting):		
Auditor's remuneration	**1,075**	1,075
Cost of inventories recognised as an expense	**34,017**	44,750
Depreciation of property, plant and equipment	**7,528**	7,055
Depreciation of right-of-use assets	**952**	—
Short-term operating lease rentals in respect of rented premises	**2,476**	4,785
Research and development expenses	**—**	3,600
Gross rental income from investment property	**611**	—
Less: direct operating expenses incurred for investment property that generated rental income during the year	**(100)**	—
	511	—
Staff costs		
— Salaries, allowances and retirement benefits scheme contributions (including Directors' emoluments)	**80,092**	89,615
— Compensation on removal of a factory	**19,584**	508

8. INCOME TAX EXPENSE (CREDIT)

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Current tax:		
Hong Kong Profits Tax	**—**	454
PRC Enterprise Income Tax	**68**	30
	68	484
(Over) under provision in prior years:		
Hong Kong Profits Tax	**(185)**	(80)
PRC Enterprise Income Tax	**27**	—
	(158)	(80)
Deferred tax		
Origination (reversal) of temporary differences	**4,928**	(621)
Total income tax expense (credit) recognised in profit or loss	**4,838**	(217)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years.

The tax charge (credit) for the year can be reconciled to the loss before tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Loss before tax	**(52,419)**	(38,597)
Tax at Hong Kong Profits Tax rate of 16.5%	**(8,649)**	(6,368)
Tax effect of income not taxable for tax purposes	**(459)**	(1,172)
Tax effect of expenses not deductible for tax purposes	**8,087**	5,190
Tax effect of temporary differences not recognised	**549**	347
Tax effect of tax losses not recognised	**6,869**	2,651
Utilisation of tax losses not previously recognised	**(109)**	182
Over-provision in respect of prior years	**(158)**	(80)
Effect of different tax rates of subsidiaries operating in the PRC	**(1,292)**	(967)
Tax charge (credit) for the year	**4,838**	(217)

9. DIVIDENDS

The Board does not recommend the payment of a final dividend for both the years ended 31 December 2019 and 2018.

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the Group's loss for the year attributable to owners of the Company of approximately HK$55,038,000 (2018: HK$36,424,000) and the weighted average number of ordinary shares of 326,923,607 (2018: 326,923,607).

Diluted loss per share for the year ended 31 December 2019 and 2018 was the same as basic loss per share as there were no dilutive potential ordinary shares in issue for both the years.

11. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**9,754**	21,677
Less: allowance for expected credit loss ("ECL") on trade receivables	**(79)**	(4,524)
	9,675	17,153
Other receivables		
Prepayment	**1,830**	1,433
Rental, utility and other deposits	**1,375**	1,499
Cash deposit in broker's account	**7**	8
Sundry debtors and others *(Note a)*	**2,528**	1,379
	5,740	4,319
	15,415	21,472

Note a: Included in sundry debtors and others were mainly export tax rebates receivables in the PRC.

Revenue from contracts with customers, included in the trade receivables were:

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Balance at the beginning of the year	**17,153**	16,040
Balance at the end of the year	**9,675**	17,153

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 invoice dates and net of loss allowance for ECL at the end of the reporting period:

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–60 days	**9,637**	15,883
61–90 days	**—**	1,162
91–120 days	**38**	29
Over 120 days	**—**	79
	9,675	17,153

The movements in the loss allowance for ECL on trade receivables:

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
At 1 January	**4,524**	4,524
Allowance for expected credit loss recognised during the year	**79**	—
Amounts written off during the year as uncollectible	**(4,524)**	—
At 31 December	**79**	4,524

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

12. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables, presented based on invoice dates at the end of reporting period:

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade payables		
0–60 days	**7,577**	7,257
61–90 days	**1,390**	611
91–120 days	**13**	22
Over 120 days	**518**	407
	9,498	8,297
Other payables		
Accrued salary, bonus and commission	**5,460**	5,750
Contract liabilities	**2,921**	1,128
Accrued expenses and others	**3,662**	2,625
	12,043	9,503
	21,541	17,800

The average credit period on purchases of certain goods is 45 to 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

13. AMOUNT DUE TO A FORMER DIRECTOR OF SUBSIDIARIES

The amount represented advance from Mr. Poon Siu Chung (a former director of subsidiaries of the Company who passed away on 28 October 2019). It was conducted on normal commercial terms, interest-bearing at a rate of 4% per annum, unsecured, and repayable on demand.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the eligibility of shareholders to attend and vote at the annual general meeting of the Company, the Register of Members will be closed from 8 June 2020, Monday, to 15 June 2020, Monday (both dates inclusive). During the closure period, no share transfer will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong at Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 5 June 2020, Friday.

BUSINESS REVIEW

Affected by the unresolved Sino-American trade disputes and the political instability in Europe, the Group's operating environment remained challenging during the year ended 31 December 2019. For the year ended 31 December 2019, the Group's revenue was approximately HK$141,936,000 (2018: HK$145,251,000), representing a decrease of about 2% as compared to last year. The Group recorded a loss for the year attributable to owners of the Company of approximately HK$55,038,000 (2018: HK$36,424,000). The basic and diluted loss per share were both at 16.84 HK cents (2018: both 11.14 HK cents).

FINANCIAL REVIEW

For the year ended 31 December 2019, the Group's core business recorded a loss of HK$26,831,000 (2018: HK$23,629,000). Detailed performance of each segment of the core business is discussed below.

Toy products

The revenue of toy products segment increased slightly by about 0.5% to approximately HK$128,203,000 (2018: HK$127,581,000), and accounted for about 90% of total revenue of the Group. The increase in revenue of this segment was primarily attributable to the increase in sales to customers in Asia (other than Hong Kong), which was partially offset by the decrease in sales to customers in the United States of America, Europe and Hong Kong. The loss of this segment increased to approximately HK$23,454,000 (2018: HK$17,393,000). During the year, the production plant in Shenzhen, the PRC, was relocated to Zhongshan, the PRC and the relocation incurred staff compensation payments amounted to HK$19,584,000 (2018: Compensation on relocation of another factory amounted to HK$508,000). The Group had implemented stringent cost control and strengthened production and operational efficiency so as to enhance the result of this segment.

Novelties and decorations products

The revenue of the novelties and decoration products segment decreased by about 22% to approximately HK$13,733,000 (2018: HK$17,670,000), which was mainly attributable to the decrease in sales to customers in Europe and the United States of America. The loss of this segment reduced to approximately HK$3,377,000 (2018: HK$6,236,000), as a result of better utilisation of existing inventories and effective cost control measures implemented by the Group.

Administrative expenses

Administrative expenses increased by about 50% to approximately HK$81,303,000 (2018: HK$54,246,000), which was mainly attributable to the increase in the staff compensation payments which amounted to approximately HK$19,584,000 in respect of relocation of the production plant as discussed in the paragraph headed "Toy products" above. Further, the legal & professional costs incurred for the Possible Acquisitions and Proposed Acquisition, as further explained in the paragraph headed "Future plans for material investments" below, amounted to approximately HK$10,462,000.

Finance costs

Finance costs increased to approximately HK$2,197,000 (2018: HK$124,000), as a result of the increase in interest on bank borrowings, lease liabilities and amount due to a former director of subsidiaries during the year.

Liquidity and financial resources

As at 31 December 2019, the Group had amount due to a former director of subsidiaries of approximately HK$47,587,000 (31 December 2018: Nil), short term bank borrowings of approximately HK$5,000,000 (31 December 2018: HK$7,000,000) and bank overdraft of nil (31 December 2018: HK$2,478,000). The Group's gearing ratio, calculated on the basis of the aggregate of the amount due to a former director of subsidiaries, bank borrowings and overdraft over the equity attributable to owners of the Company, was approximately 44% (31 December 2018: 6%).

As at 31 December 2019, the Group had bank balances and cash of approximately HK$70,403,000 (31 December 2018: HK$73,946,000). With total current assets as at 31 December 2019 of approximately HK$102,869,000 (31 December 2018: HK$107,948,000) as well as available banking facilities, the Group had sufficient financial resources to satisfy its commitments and working capital requirements.

Pledge of Assets

As at 31 December 2019, the Group had pledged its leasehold land and buildings with carrying value of approximately HK$33,703,000 (31 December 2018: HK$61,436,000) and investment property of approximately HK$39,900,000 (31 December 2018: nil) to secure banking facilities granted to the Group.

Net asset value

The net asset value per share as at 31 December 2019 was approximately HK$0.37 (31 December 2018: HK$0.48), calculated on the basis of the equity attributable to owners of the Company of approximately HK$119,571,000 (31 December 2018: HK$158,311,000) over the actual number of shares in issue on that date of 326,923,607 (31 December 2018: 326,923,607).

Employees and remuneration policies

As at 31 December 2019, the Group employed approximately 680 (2018: 860) full time employees. The Group remunerates its employees primarily based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full-time employees.

Foreign currency exposure

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar. As all of its factories are located in the PRC, expenses incurred there are denominated in Renminbi. 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 Renminbi to see if any action is required. As at 31 December 2019, the Group did not enter into any financial instrument for the hedging of exposure in foreign currencies.

Future plans for material investments

On 25 April 2019, the Company entered into a non-legally binding memorandum of understanding respectively with each of Hong Kong Sino-Science Energy Investment Company Limited, a company incorporated under the laws of Hong Kong ("First MOU") and Hong Kong Sino-Science International Oil & Gas Investment Group Company Limited, a company incorporated under the laws of Hong Kong ("Second MOU"). Pursuant to the First MOU, the Company intends to acquire 100% equity interest in Kozhan JSC ("Kozhan"), a joint stock company listed on the Kazakhstan Stock Exchange ("First Possible Acquisition"). Kozhan is principally engaged in oil exploration and production. The major assets owned by Kozhan include two oil fields in production located in Kazakhstan. Pursuant to the Second MOU, the Company intends to acquire interests in Sozak Oil and Gas LLP ("Sozak"), a limited liability partnership established under the laws of Kazakhstan, so that the Company's interests in Sozak will give it sufficient influence in decisions over the exploration and/or production activities of Sozak ("Second Possible Acquisition" and together with the First Possible Acquisition, collectively the "Possible Acquisitions"). For details of the Possible Acquisitions, please refer to the Company's announcement "Inside Information Memorandum of Understanding in Respect of the Possible Acquisitions" dated 25 April 2019.

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 ("Proposed Acquisition"). 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. The consideration for the Proposed Acquisition shall be paid by the Company through a combination of cash, the allotment and issue of new shares of the Company and/or other forms of securities issued by the Company at a price to be agreed upon by SSNP and the Company. The material terms of the Proposed Acquisition are yet to be agreed and are subject to the execution of the final definitive agreement. For details of the Proposed Acquisition, please refer to the Company's announcement "Inside Information in Relation to Framework Sale and Purchase Agreement" dated 15 August 2019.

It is the intention of the Group to actively identify good merger and acquisition opportunities in order to acquire new business or assets that will bring additional value and new income streams to the Group. Leveraging on the extensive experience in the areas of oil and natural gas industry and corporate management, the Board believes that the Proposed Acquisition will help the Company navigate its business focus towards natural gas and clean energy to meet the growing natural gas demand in the PRC, and create long-term returns for the shareholders of the Company with enhanced values.

PROSPECT

The Sino-American trade disputes and the political instability in Europe are expected to continue to cast uncertainty and challenges to the Group's operating environment in the coming years. Further, the outbreak of Coronavirus Disease 2019 (the "COVID-19 outbreak") at the beginning of year 2020 has brought about additional uncertainties in the Group's operating environment in the PRC. As far as the Group's businesses are concerned, the outbreak has caused operational delays. The Group has put in place contingency measures to minimize the impact from the outbreak. 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 control measures in order to minimize the impact of these challenges. Meanwhile, the Directors endeavour to materialize the Proposed Acquisition in order to bring additional value and new income streams to the Group, and create long-term returns for the shareholders of the Company with enhanced values. With the joint efforts of all of its employees, the Group endeavours to work well with its customers, business partners and shareholders to maximise its corporate value and deliver promising returns to its shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct governing the Directors' transactions in securities of the Group on terms no less exacting than the standard set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") contained in Appendix 10 to the Listing Rules.

Following specific enquiry by the Group, all Directors have confirmed that throughout the year 2019, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2019, the Company has complied with the code provisions (the "Code Provisions") set out in the "Corporate Governance Code and Corporate Governance Report" in Appendix 14 (the "Code") to the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee which comprises all independent non-executive Directors, Mr. Lam Tak Leung, Mr. Xie Xiaohong and Mr. Lau Shu Yan, who is also the chairman of the committee.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group, and matters related to risk management and internal controls systems and financial reporting, and has reviewed the unaudited consolidated financial statements for the year ended 31 December 2019 of the Group now reported on.

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

During the year under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed its own shares through The Stock Exchange of Hong Kong Limited or otherwise.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to travel restrictions in force in parts of the PRC and quarantine measures imposed by the relevant authorities to combat the COVID-19 outbreak. The unaudited results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results for the year ended 31 December 2019 will be made as soon as the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and explanations on the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process.

APPRECIATION

Finally, I would like to take this opportunity to thank all my fellow Directors and the staff for their contribution and cordial support during the year under review.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

On behalf of the Board
Gao Xiaorui
Chairman

Hong Kong, 30 March 2020

As at the date of this announcement, the Board is composed of Mr. Li Shaohua and Mr. Poon Wai Yip, Albert as executive Directors, Mr. Gao Xiaorui as a non-executive Director and Mr. Lam Tak Leung, Mr. Lau Shu Yan and Mr. Xie Xiaohong as independent non-executive Directors.