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# THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of the Offers, this Composite Document and/or the accompanying Forms of Acceptance or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in PERFECTECH INTERNATIONAL HOLDINGS LIMITED, you should at once hand this Composite Document and the accompanying Forms of Acceptance to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for onward transmission to the purchaser(s) or the transferee(s).

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Forms of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Forms of Acceptance.

This Composite Document should be read in conjunction with the accompanying Forms of Acceptance, the contents of which form part of the terms and conditions of the Offers.

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## STAR FLY LIMITED

*(incorporated in the British Virgin Islands with limited liability)*

## FRESH CHOICE HOLDINGS LIMITED

*(incorporated in the British Virgin Islands with limited liability)*



## PERFECTECH INTERNATIONAL HOLDINGS LIMITED

威發國際集團有限公司\*

*(incorporated in Bermuda with limited liability)*

(Stock Code: 765)

**COMPOSITE DOCUMENT RELATING TO  
VOLUNTARY CONDITIONAL CASH OFFERS BY  
YU MING INVESTMENT MANAGEMENT LIMITED  
ON BEHALF OF  
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
PERFECTECH INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED  
TO BE ACQUIRED BY  
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED AND  
PARTIES ACTING IN CONCERT WITH THEM) AND  
TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

*Financial adviser to Star Fly Limited  
and Fresh Choice Holdings Limited*



YU MING INVESTMENT MANAGEMENT LIMITED  
馮銘投資管理有限公司

*Financial adviser to the Company*



INCUCO Corporate Finance Limited

*Independent financial adviser to the Independent Board Committee of  
Perfectech International Holdings Limited*



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Capitalized terms used in this cover page shall have the same meanings as those defined in this Composite Document.

A letter from Yu Ming containing, among other things, the details of the terms and conditions of the Offers is set out on pages 6 to 16 of this Composite Document. A letter from the Board is set out on pages 17 to 25 of this Composite Document. A letter from the Independent Board Committee containing its recommendation in respect of the Offers to the Independent Shareholders and the Independent Optionholders is set out on pages 26 to 27 of this Composite Document. A letter from Astrum containing its advice to the Independent Board Committee in respect of the Offers is set out on pages 28 to 49 of this Composite Document.

The procedures for acceptance and settlement of the Offers are set out on pages 50 to 62 in Appendix I to this Composite Document and in the accompanying Forms of Acceptance. Acceptances of the Share Offer must be received by the Registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:00 p.m. on Monday, 14 November 2016 and acceptances of the Option Offer must be received by the company secretary of the Company at Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong by no later than 4:00 p.m. on Monday, 14 November 2016, or such later time and/or date as the Offerors may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Forms of Acceptance to any jurisdiction outside Hong Kong should read the section headed "Overseas Independent Shareholders and Independent Optionholders" in the "Letter from Yu Ming" and Appendix I to this Composite Document before taking any action. It is the responsibility of the Overseas Independent Shareholders and Independent Optionholders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers, including the obtaining of any governmental, exchange control or other consent and any registration or filing which may be required or the compliance with other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdictions. Overseas Independent Shareholders and Independent Optionholders are advised to seek professional advice on deciding whether to accept the Offers.

\* For identification purpose only

24 October 2016

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## EXPECTED TIMETABLE

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*The expected timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offerors and the Company.*

**2016**

Despatch date of this Composite Document and the accompanying Forms of Acceptance and commencement date of the Offers ( <i>Note 1</i> ) . . . . .	Monday, 24 October
Latest time and date for acceptance of the Offers on the first Closing Date ( <i>Note 3</i> ) . . . . .	4:00 p.m. on Monday, 14 November
First Closing Date ( <i>Note 3</i> ) . . . . .	Monday, 14 November
Announcement of the results of the Offers as at the first Closing Date, to be posted on the website of the Stock Exchange . . . . .	no later than 7:00 p.m. on Monday, 14 November
Latest date for posting of remittances for the amount due in respect of valid acceptances received under the Offers on or before 4:00 p.m. on the first Closing Date assuming the Offers become or are declared unconditional on the first Closing Date ( <i>Note 4</i> ) . . . . .	Wednesday, 23 November
Latest time and date for the Offers remaining open for acceptance on the final Closing Date assuming the Offers become or are declared unconditional on the first Closing Date ( <i>Note 5</i> ) . . . . .	4:00 p.m. on Monday, 28 November
Final Closing Date ( <i>Note 5</i> ) . . . . .	Monday, 28 November
Announcement of the results of the Offers as at the final Closing Date, to be posted on the website of the Stock Exchange . . . . .	no later than 7:00 p.m. on Monday, 28 November
Latest date for posting of remittances for the amount due in respect of valid acceptances received under the Offers on or before 4:00 p.m. on 28 November, being the latest date on which the Offers remain open for acceptances assuming the Offers become or are declared unconditional on the first Closing Date ( <i>Note 4</i> ) . . . . .	Wednesday, 7 December
Latest time and date by which the Offers can become or be declared unconditional as to acceptances ( <i>Note 6</i> ) . . . . .	no later than 7:00 p.m. on Friday, 23 December

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## EXPECTED TIMETABLE

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*Notes:*

1. The Offers are open for acceptance on and from 24 October 2016, being the date of posting of this Composite Document, and are capable of acceptance on and from that date until the close of the Offer Period.
2. Beneficial owners of Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (as set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.
3. The Offers will initially remain open for acceptances until 4:00 p.m. on 14 November 2016 unless the Offerors revise or extend the Offers in accordance with the Takeovers Code. The Offerors have the right under the Takeovers Code to extend the Offers until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offerors will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Closing Date or, if the Share Offer is at that time unconditional as to acceptances, a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the Offers.
4. Subject to the Offers becoming unconditional, remittances in respect of the cash consideration for the Offer Shares or the Options tendered under the Offers will be despatched to the accepting Shareholder(s) (to the address specified on the relevant Shareholder's Form of Share Offer Acceptance) or Optionholder(s) (to the company secretary of the Company for collection by the relevant Optionholder) by ordinary post at his/her/its own risk as soon as possible, but in any event within seven (7) Business Days following the later of the date of receipt by the Registrar (in the case of Offer Shares) or the company secretary of the Company (in the case of Options) of all the relevant documents to render the acceptance under the Offers complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code, and the date on which the Offers become or are declared unconditional in all respects.
5. In accordance with the Takeovers Code, where the Offers become or are declared unconditional in all respects, the Offers should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Offers are closed. The Offerors have the right, subject to the Takeovers Code, to extend the Offers until such date as they may jointly determine or as permitted by the Executive, in accordance with the Takeovers Code. The Offerors will issue a press announcement in relation to any extension of the Offers, which will state the next closing date or, if the Offers have become or are at that time unconditional, that the Offers will remain open until further notice.
6. In accordance with the Takeovers Code, except with the consent of the Executive, the Offers may not become or be declared unconditional as to acceptances after 7:00 p.m. on 23 December 2016, being the 60th day after the day this Composite Document is posted. Accordingly, unless the Offers have previously become unconditional as to acceptances, the Offers will lapse on 23 December 2016 unless extended with the consent of the Executive and in accordance with the Takeovers Code. In addition, unless the Offers become or are declared unconditional in all respects within 21 days of the Offers becoming or are being declared unconditional as to acceptances, the Offers will lapse. Therefore, the last day by which the Offers can become or be declared unconditional in all respects is 13 January 2017.
7. The latest time and date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances will not take effect if there is a tropical cyclone warning signal number 8 or above, or a "black rainstorm warning", in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances. Instead the latest time for acceptance of the Offers and the posting of remittances will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

**All references to date and time contained in this Composite Document and the Forms of Acceptance refer to Hong Kong date and time.**

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## DEFINITIONS

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*In this Composite Document, unless the context otherwise requires, the following terms shall have the following meanings:*

“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Affiliate”	with respect to a person, any other person that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such person
“associates”	has the meaning ascribed to it under the Takeovers Code
“Astrum”	Astrum Capital Management Limited, a licensed corporation under the SFO authorised to carry out regulated activities of type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance), and type 9 (asset management), being the independent financial adviser appointed to advise the Independent Board Committee in respect of the Offers
“Board”	the board of Directors
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited
“Closing Date”	14 November 2016, the closing date of the Offers, or if the Offers are extended, any subsequent closing date as the Offerors may determine and announce with the consent of the Executive and in accordance with the Takeovers Code
“Company”	Perfectech International Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Composite Document”	this composite document issued jointly by the Offerors and the Company in accordance with the Takeovers Code and the Listing Rules, containing, amongst other things, the detailed terms of the Offers
“Concert Parties”	parties acting in concert (as such term is defined in the Takeovers Code) with the person or party as specified and as determined in accordance with the Takeovers Code
“Conditions”	the conditions precedent to the closing of the Offers

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## DEFINITIONS

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“Controlling Shareholders”	Mr. Poon, Ms. Lau and Mime
“Director(s)”	director(s) of the Company
“Exclusivity Agreement”	the Exclusivity and Confidentiality Agreement entered into amongst the Controlling Shareholders and the Offerors on 27 May 2016 in respect of certain preliminary terms in relation to the Offers and the Poon’s Irrevocable Undertakings
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Form(s) of Acceptance”	the Form of Share Offer Acceptance and the Form of Option Offer Acceptance, and “Form of Acceptance” means either of them
“Form of Option Offer Acceptance”	the YELLOW form of acceptance in respect of the Option Offer accompanying this Composite Document
“Form of Share Offer Acceptance”	the WHITE form of acceptance in respect of the Share Offer accompanying this Composite Document
“Fresh Choice”	Fresh Choice Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, being one of the Offerors and interested in 50% of the Offers. Subject to the Share Offer becoming unconditional in all respects, it is intended that each of Star Fly and Fresh Choice will finance the Offers on an equal basis, and that their respective shareholding interest in the Company will be proportionate to their respective financial contribution to the Offers
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	the Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“INCU”	INCU Corporate Finance Limited, a licensed corporation under the SFO authorised to carry out regulated activity of type 6 (advising on corporate finance), being the financial adviser to the Company

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## DEFINITIONS

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“Independent Board Committee”	the independent board committee of the Board, comprising all the independent non-executive Directors, namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, established for the purpose of making recommendations to the Independent Shareholders and the Independent Optionholders in relation to the Offers
“Independent Optionholder(s)”	holder(s) of the Options, other than the Offerors and their Concert Parties
“Independent Shareholder(s)”	holder(s) of Share(s) other than the Offerors and their Concert Parties
“Irrevocable Undertakings”	Poons Irrevocable Undertakings and Leungs Irrevocable Undertakings
“Joint Announcement”	the joint announcement issued by the Offerors and the Company dated 3 October 2016 in relation to, among other things, the Offers and the Irrevocable Undertakings
“Last Trading Day”	27 September 2016, being the last trading day on which Shares were traded on the Stock Exchange before the suspension of trading in the Shares pending the release of the Joint Announcement
“Latest Practicable Date”	20 October 2016, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
“Leungs Irrevocable Undertakings”	the irrevocable undertakings given by Mr. Leung and his Affiliates in favour of the Offerors to accept the Offers in respect of the Shares held by each of them
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mime”	Mime Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are owned as to 55% by Mr. Poon and 45% by Ms. Lau
“Mr. Leung”	Mr. Leung Ying Wai Charles, a substantial Shareholder
“Mr. Poon”	Mr. Poon Siu Chung, the chairman and managing Director of the Company
“Ms. Lau”	Ms. Lau Kwai Ngor, being the spouse of Mr. Poon

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## DEFINITIONS

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“Offer Period”	the period commencing from 1 June 2016, being the date of the announcement in relation to the Exclusivity Agreement and the start of offer period, up to the Closing Date
“Offer Share(s)”	issued Shares other than those Shares already owned or agreed to be acquired by the Offerors and its Concert Parties
“Offerors”	Star Fly and Fresh Choice
“Offers”	the Share Offer and the Option Offer
“Option Offer”	the offer proposed to be made by the Offerors in compliance with Rule 13 of the Takeovers Code to cancel all the outstanding Options in accordance with the terms and conditions set out in this Composite Document
“Optionholders”	the holders of the Options
“Options”	the 16,452,000 outstanding share options granted by the Company pursuant to the Share Option Scheme, whether vested or not
“Overseas Shareholder(s)”	Independent Shareholder(s) whose address(es) as stated in the register of members of the Company is (are) outside Hong Kong
“Poons Irrevocable Undertakings”	the irrevocable undertakings given by the Controlling Shareholders in favour of the Offerors to accept the Offers in respect of the Shares held by each of them
“PRC”	the People’s Republic of China which, for the purpose of this Composite Document, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Registrar”	Tricor Standard Limited, the Hong Kong branch share registrar and transfer office of the Company, with its address at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Relevant Period”	the period commencing on 1 December 2015, being the date falling six months before the date of announcement in relation to the Exclusivity Agreement and the start of the Offer Period, up to and including the Latest Practicable Date
“SFC”	the Securities and Futures Commission of Hong Kong

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## DEFINITIONS

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“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Share Offer”	the voluntary conditional cash offer to be made by Yu Ming on behalf of the Offerors to acquire all of the Offer Shares in accordance with terms and conditions set out in this Composite Document
“Share Offer Price”	the price of HK\$1.815 per Offer Share payable by the Offerors to the Shareholders for each Offer Share tendered under the Share Offer
“Share Option Scheme”	the share option scheme adopted by the Company on 30 May 2012, as amended from time to time
“Star Fly”	Star Fly Limited, a company incorporated in the British Virgin Islands with limited liability, being one of the Offerors and interested in 50% of the Offers. Subject to the Share Offer becoming unconditional in all respects, it is intended that each of Star Fly and Fresh Choice will finance the Offers on an equal basis, and that their respective shareholding interest in the Company will be proportionate to their respective financial contribution to the Offers
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers issued by the SFC
“Yu Ming”	Yu Ming Investment Management Limited, a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO authorised to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management), being the financial advisor of the Offerors
“%”	per cent.

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## LETTER FROM YU MING

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YU MING INVESTMENT MANAGEMENT LIMITED  
禹銘投資管理有限公司

*To the Independent Shareholders and the Independent Optionholders,*

24 October 2016

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFERS BY  
YU MING INVESTMENT MANAGEMENT LIMITED  
ON BEHALF OF  
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
PERFECTECH INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED  
TO BE ACQUIRED BY  
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED AND  
PARTIES ACTING IN CONCERT WITH THEM) AND  
TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

### **INTRODUCTION**

On 3 October 2016, the Offerors and the Company jointly announced that voluntary conditional cash offers would be made by Yu Ming, on behalf of the Offerors (i) to acquire all of the Shares in the entire issued share capital of the Company (other than those Shares already owned or agreed to be acquired by the Offerors and their Concert Parties); and (ii) to cancel all the outstanding Options in compliance with Rule 13 of the Takeovers Code.

This letter sets out, amongst other things, the principal terms of the Offers, together with the information on the Offerors and the Offerors' intentions regarding the Group. Further details of the terms of the Offers and procedures for acceptance are also set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

### **THE OFFERS**

Yu Ming, on behalf of the Offerors, hereby makes the voluntary conditional cash offers to all Independent Shareholders and Independent Optionholders (i) to acquire all of the Shares in the entire issued share capital of the Company (other than those Shares already owned or agreed to be acquired by the Offerors and their Concert Parties); and (ii) to cancel all the outstanding Options on the following basis:

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## LETTER FROM YU MING

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### The Share Offer

**For each Offer Share . . . . . HK\$ 1.815 in cash**

The Offer Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all encumbrances and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

As at the Latest Practicable Date, there are 326,923,607 Shares in issue, and the Offerors and their Concert Parties are not interested in any Shares (other than as a result of the execution of the Irrevocable Undertakings).

Further details of the terms of the Share Offer and the procedures for acceptance are set out in Appendix I to this Composite Document and the accompanying Form of Share Offer Acceptance.

### Comparison of value

The Share Offer Price of HK\$1.815 per Offer Share represents:

- (i) a premium of approximately 8.04% to the closing price of HK\$1.68 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 7.40% over the average closing price of approximately HK\$1.69 per Share for the last five (5) trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 6.76% over the average closing price of approximately HK\$1.70 per Share for the last ten (10) trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 12.04% over the average closing price of approximately HK\$1.62 per Share for the last thirty (30) trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 1.40% over the closing price of HK\$1.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a premium of approximately 2.88 times over the unaudited consolidated net asset value per Share as at 30 June 2016 of approximately HK\$0.63 (which was calculated by dividing (i) the sum of the unaudited consolidated net asset value of the Group as at 30 June 2016 of approximately HK\$206.76 million by 326,923,607 Shares in issue as at Latest Practicable Date).

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## LETTER FROM YU MING

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### Highest and lowest Share prices

The highest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was HK\$1.84 per Share on 10 December 2015 and the lowest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was HK\$1.13 on 20 January 2016.

### The Option Offer

The Offerors will make appropriate offers to the Independent Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Options (whether vested or not) in exchange for cash.

For outstanding Options with an exercise price of HK\$0.77 each

**For the cancellation of each such Option . . . . . HK\$ 1.045 in cash**

For outstanding Options with an exercise price of HK\$1.46 each

**For the cancellation of each such Option . . . . . HK\$ 0.355 in cash**

As at the Latest Practicable Date, there are 16,452,000 outstanding Options granted under the Share Option Scheme, carrying rights to subscribe for 16,452,000 new Shares. 16,366,000 of the outstanding Options have an exercise price of HK\$1.46, and the remaining 86,000 outstanding Options have an exercise price of HK\$0.77.

As at the Latest Practicable Date, Mr. Poon, being one of the Controlling Shareholders, and his Concert Parties hold 6,058,000 Options carrying rights to subscribe for 6,058,000 new Shares.

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

Further terms of the Option Offer and the procedures for acceptance are set out in Appendix I to this Composite Document and the accompanying Form of Option Offer Acceptance.

### Value of the Offers

As at the Latest Practicable Date, there are 326,923,607 Shares in issue and 16,452,000 outstanding Options. Save as disclosed above, the Company has no other relevant securities (as defined in note 4 of Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

On the basis of the Share Offer Price of HK\$1.815 per Offer Share and assuming that no outstanding Options are exercised prior to the Closing Date, the Share Offer is valued at approximately HK\$593,366,347 and the value of the Option Offer at approximately HK\$5,899,800.

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## LETTER FROM YU MING

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Assuming all outstanding Options are exercised in full by the Optionholders prior to the Closing Date, the total issued shares of the Company would increase to 343,375,607 Shares, the value of the Share Offer will be approximately HK\$623,226,727.

### **Confirmation of financial resources**

Each of the Offerors is interested in 50% of the Offers and will acquire the Offer Shares tendered for acceptance by the Independent Shareholders pursuant to and in accordance with the terms of the Share Offer and to cancel all the outstanding Options tendered for acceptance by the Independent Optionholders pursuant to and in accordance with the terms of the Option Offer in with respect to each of the Offerors' respective interest. Assuming all outstanding Options have been exercised in full by the Optionholders prior to the Closing Date, the financial resources requirement required from the Offerors to satisfy the total consideration for the Offers shall amount to an aggregate of HK\$623,226,727.

The Offerors intend to finance the entire consideration payable under the Offers by way of cash advanced from their respective ultimate beneficial owners. Mr. Zhai Jun ("Mr. Zhai"), being the sole shareholder of Star Fly, has advanced a shareholder's loan representing 50% of the total consideration for the Offers to Star Fly to satisfy its obligations under the Offers; Mr. Gao Xiaorui ("Mr. Gao"), who is the legal and beneficial owner as to 90% of the issued share capital of Fresh Choice and Mr. Wu Zhenlong ("Mr. Wu"), who is the legal and beneficial owner as to 10% of the issued share capital of Fresh Choice, have each advanced shareholder's loan representing 45% and 5% respectively of the total consideration for the Offers to Fresh Choice to satisfy its obligations under the Offers. Yu Ming, the financial adviser to the Offerors in respect of the Offers, is satisfied that sufficient financial resources are available to the Offerors to satisfy full acceptance of the Offers.

### **Conditions of the Offers**

The Share Offer is subject to the fulfillment or waiver, as applicable, the following Conditions:

- (a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offerors may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares acquired or agreed to be acquired before or during the Offers, will result in the Offerors and their Concert Parties together holding not less than 70% of the voting rights of the Company;
- (b) the Shares remaining listed and traded on the Stock Exchange up to the Closing Date save for any temporary suspension(s) of trading in the Shares as a result of the Offers and no indication being received on or before the Closing Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn, other than as a result of the Offers; and
- (c) no events, up to the Closing Date, having occurred which would make the Offers or the acquisition of any of the Shares or cancellation of the Options under the Offers void, unenforceable or illegal or their implementation being prohibited or which would impose material conditions, limitations or obligations with respect to the Offers.

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## LETTER FROM YU MING

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The Offerors reserve the right, acting jointly, to waive, in whole or in part, Condition (b). Conditions (a) and (c) cannot be waived.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offerors should not invoke Condition (c) so as to cause the Offers to lapse unless the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offerors in the context of the Offers.

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offerors reserve the right to revise the terms of the Offers in accordance with the Takeovers Code.

### **Effect of accepting the Offers**

Acceptance of the Share Offer will constitute a warranty to each of the Offerors by each person accepting it that the Shares acquired under the Share Offer and sold by such persons are free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

Acceptance of the Option Offer by Optionholders will result in the cancellation of those outstanding Options, together with all rights attaching thereto.

Acceptance of the Offers would be irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

### **Overseas Independent Shareholders and Independent Optionholders**

The Offerors intend to make the Share Offer and Option Offer available to all Independent Shareholders and Independent Optionholders respectively, including those who are not resident in Hong Kong. The availability of the Offers to persons who are not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws or regulations of the relevant jurisdictions. Such Independent Shareholders and Independent Optionholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe relevant applicable legal or regulatory requirements and, where necessary, seek legal advice. This Composite Document will not be filed, nor approval for its issuance sought, under the applicable securities or equivalent legislation or rules of any jurisdiction other than Hong Kong.

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## LETTER FROM YU MING

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According to the register of members of the Company as at the Latest Practicable Date, there are seven Shareholders with registered addresses located in Macau and one Shareholder with registered address located in Canada. According to the register of Optionholders as at the Latest Practicable Date, there is no Optionholder with a registered address outside Hong Kong. The Company and the Offerors have enquired about the legal restrictions under the applicable securities legislation of the relevant jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the extension of the Share Offer to such Overseas Shareholders.

The Company and the Offerors have obtained advice from a law firm qualified to advise on Macau law, which opined that there is no requirement for any of the Company, Yu Ming or the Offerors to obtain any prior approval, consent or registration with any governmental, regulatory or such other authority in Macau in relation to the extension of the Share Offer, and the despatch of the Composite Document to Independent Shareholders with registered addresses in Macau.

The Company and the Offerors have sought legal advice from a law firm qualified to advise on Canadian law, which opined that the extension of the Share Offer to a Shareholder whose registered address is at Toronto, Canada (“Canadian Shareholder”) will be subject to the Province of Ontario Securities Act and the applicable regulations in Ontario. To comply with the local regulations in Canada would be unduly burdensome to the Company and the Offerors, as the shareholding of the Canadian Shareholder represents only approximately 0.0126% of the total issued share capital of the Company, the Offerors have therefore applied to the Executive for a waiver pursuant to Note 3 to Rule 8 of the Takeovers Code, and subject to the Executive’s consent, that the Composite Document will not be despatched to the Canadian Shareholder.

Whether or not the Composite Document is sent to the overseas Independent Shareholders or Independent Optionholders, the Composite Document will be published on the websites of the Company and the Stock Exchange, and will be available for collection in the office of the Share Registrar. It is the responsibility of the individual Independent Shareholders or Independent Optionholders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers (including the obtaining of any regulatory or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

**Any acceptance by any Independent Shareholder or Independent Optionholder who is not resident in Hong Kong will be deemed to constitute a representation and warranty from such Shareholder or Optionholder to the Offerors that the local laws and requirements have been complied with. All such Independent Shareholders and Independent Optionholders should consult their professional advisers if in doubt.**

### **Stamp duty**

In Hong Kong, seller’s ad valorem stamp duty arising in connection with acceptances of the Share Offer will be payable by the relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offerors in respect of the relevant acceptances of the Share Offer, whichever is higher. An amount equivalent to the aforesaid stamp duty

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## LETTER FROM YU MING

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will be deducted from the cash amount payable by the Offerors to such Independent Shareholder who accepts the Share Offer (where the stamp duty calculated includes a fraction of HK\$1, the stamp duty would be rounded-up to the nearest HK\$1). The Offerors will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant Independent Shareholders accepting the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Share Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

No stamp duty is payable in connection with the Option Offer.

### **IRREVOCABLE UNDERTAKINGS**

On 27 September 2016 (after trading hours), each of the Controlling Shareholders has executed the Poons Irrevocable Undertakings in favour of the Offerors, pursuant to which each of Mr. Poon, Ms. Lau and Mime has irrevocably undertaken to the Offerors that they will accept the Share Offer in respect of the Shares held by each of them.

On 30 September 2016, each of Mr. Leung and his Affiliates has executed the Leungs Irrevocable Undertakings in favour of the Offerors, pursuant to which each of Mr. Leung and his Affiliates has irrevocably undertaken to the Offerors that they will accept the Share Offer in respect of the Shares held by each of them.

As at the Latest Practicable Date, the Controlling Shareholders, namely, Mr. Poon, Ms. Lau and Mime are beneficial owners of 22,764,000 Shares, 16,404,000 Shares and 101,139,430 Shares, representing approximately 6.96%, 5.02% and 30.94% of the total issued Shares, respectively; Mr. Leung and his Affiliates are interested in 61,365,200 Shares, representing approximately 18.77% of the total issued Shares.

Prior to the closing, lapse or withdrawal of the Share Offer, each of Mr. Poon, Ms. Lau, Mime and Mr. Leung and his Affiliates has undertaken not to sell or transfer (or cause the same to be done) or otherwise dispose of (or permit any such action to occur in respect of) any interest in any Shares beneficially owned by them and not to withdraw or procure the withdrawal of acceptance of the undertaking Shares.

The Poons Irrevocable Undertakings will remain effective unless the Offers lapse or are withdrawn. The Leungs Irrevocable Undertakings will remain effective unless the Offers lapse and will otherwise remain valid and effective for a period of 100 days from the date of the execution of each undertaking. Save for disclosed above, there are no other circumstances under which the Irrevocable Undertakings may cease to be binding.

### **INFORMATION ON THE OFFERORS**

The Offerors consist of Star Fly and Fresh Choice, both of which are companies incorporated in the British Virgin Islands with limited liability.

Star Fly is an investment holding company wholly-owned by Mr. Zhai, its sole director. Mr. Zhai, aged 47, has over 20 years of experience in the financial and securities industry and has worked at leading financial institutions and a leading accounting firm, specialising in direct investment and corporate finance. Mr. Zhai graduated from Murdoch University in Australia with a bachelor's degree in

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## LETTER FROM YU MING

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commerce, and is a member of the Shanxi Provincial People's Political Consultative Conference. Save for entering into the Exclusivity Agreement and engaging advisers for the purposes of the Offers, Star Fly has not conducted any business since its incorporation.

Fresh Choice is an investment holding company owned as to 90% by Mr. Gao and 10% by Mr. Wu. Mr. Gao, aged 36, is the sole director of Fresh Choice. He has over 10 years of experience in the investment and accounting fields. Mr. Gao graduated from Communication University of China with a bachelor's degree in accounting. Mr. Wu, aged 52, has over 25 years of experience in international sales and marketing. He graduated from Beijing Jiaotong University with a bachelor's degree in civil engineering. Save for entering into the Exclusivity Agreement and engaging advisers for the purposes of the Offers, Fresh Choice has not conducted any business since its incorporation.

Other than (i) in relation to the making of the Offers, (ii) and the relationship between Mr. Gao and Mr. Wu as shareholders of, and lenders to, Fresh Choice as disclosed in this Composite Document, there is no prior or present relationship (whether business, financial or otherwise) between each of Mr. Zhai, Mr. Gao and Mr. Wu. As at the date hereof, none of Mr. Zhai, Mr. Gao nor Mr. Wu intends or contemplates entering into any relationship with each other in the future (whether business, financial or otherwise).

As at the Latest Practicable Date, Mr. Zhai has advanced a shareholder's loan representing 50% of the total consideration for the Offers to Star Fly; and each of Mr. Gao and Mr. Wu has advanced a shareholder's loan representing 45% and 5% respectively of the total consideration for the Offers to Fresh Choice. Subject to the Share Offer becoming unconditional in all respects, it is intended that each of Star Fly and Fresh Choice will finance the Offers on an equal basis, and that their respective shareholding interests in the Company will be proportionate to their respective financial contributions to the Offers.

### **INFORMATION ON THE GROUP**

The Company is incorporated in Bermuda and is an investment holding company. Its subsidiaries are principally engaged in manufacturing and the sales of novelties, decoration and toy products.

Your attention is drawn to the details of the information of the Group as set out under the section headed "Information on the Group" in the "Letter from the Board" and in Appendices II and III to this Composite Document.

### **INTENTIONS OF THE OFFERORS REGARDING THE GROUP**

The Offerors intend to continue the existing businesses of the Group. As at the Latest Practicable Date, the Offerors have no plan to inject any assets or businesses into the Group or to procure the Group to acquire or dispose of any assets.

Immediately after the close of the Offers, the Offerors will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. As at the Latest Practicable Date, the Offerors have not identified such investment or business opportunities.

The Offerors have no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for the proposed change of the Board composition as detailed in the section headed "Proposed change of composition of the Board" below) or to dispose of or re-allocate the Group's assets which are not in the ordinary and usual course of business of the Group.

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## LETTER FROM YU MING

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### **Proposed change of composition of the Board**

Upon close of the Offers, save for Mr. Poon Wai Yip, Albert, all other existing Directors will resign with effect from the earliest time as permitted under the Takeovers Code which is the day immediately after the first Closing Date of the Offers or is declared unconditional or such later date.

The Offerors intend to nominate new directors to the Board upon the Offers becoming unconditional in all respects or such later date.

Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made as and when appropriate.

### **Maintaining the listing status of the Company**

The Offerors have no intention to privatise the Group and intend to maintain the listing of the Shares on the Stock Exchange. The remaining Director and directors of the Offerors have jointly and severally undertaken to the Stock Exchange that in the event that after the close of the Offers, the public float of the Company falls below 25%, they would take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible, to ensure that sufficient public float exists for the Shares. The directors of the Offerors will also procure the new directors to be appointed to the Board to undertake the same upon their appointments.

The Stock Exchange has stated that if, upon closing of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

## **ACCEPTANCES OF THE OFFERS**

### **Procedures for acceptance**

To accept the Offers, you should complete and sign the accompanying Form(s) of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offers.

The duly completed and signed Form of Share Offer Acceptance, should be sent, together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, marked "**Perfectech Share Offer**" on the envelope, in any event not later than 4:00 p.m., on the Closing Date or such later time and/or date as the Offerors may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.

The duly completed and signed Form of Option Offer Acceptance should be sent, together with the certificate(s) of the Options and/or other document(s) of title (and/or any satisfactory indemnity or

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## LETTER FROM YU MING

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indemnities required in respect thereof) stating the number of Options in respect of which you intend to accept the Option Offer, to the company secretary of the Company at Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong, marked “**Perfectech Option Offer**” on the envelope, as soon as possible and in any event so as to reach the company secretary of the Company at the aforesaid address by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offerors may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.

No acknowledgment of receipt of any Forms of Acceptance, share certificate(s) and/or transfer receipt(s) and/or the certificate(s) of the Options and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

Your attention is drawn to “Further terms and procedures of acceptance of the Offers” as set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

### **Settlement of the Offers**

Subject to the Offers becoming unconditional, remittances in respect of the cash consideration for the Offer Shares or the Options tendered under the Offers will be despatched to the accepting Shareholder(s) (to the address specified on the relevant Shareholder’s Form of Share Offer Acceptance) or Optionholder(s) (to the company secretary of the Company for collection by the relevant Optionholder) by ordinary post at his/her/its own risk as soon as possible, but in any event within seven (7) Business Days following the later of (i) the date of receipt by the Registrar (in the case of Offer Shares) or the company secretary of the Company (in the case of Options) of all the relevant documents to render the acceptance under the Offers complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code; and (ii) the date on which the Offers become or are declared unconditional in all respects.

No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder or an Optionholder (as the case may be) who accepts the Share Offer or the Option Offer (as the case may be) will be rounded up to the nearest cent.

### **Nominee registration**

To ensure equality of treatment of all Shareholders and Optionholders, those Shareholders and Optionholders who hold Shares and Options as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Shares and Options, whose investments are registered in the names of nominees, to accept the Offers, it is essential that they provide instructions of their intentions with regard to the Offers to their nominees.

### **Tax implications**

Independent Shareholders and Independent Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers.

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## LETTER FROM YU MING

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None of the Offerors, the Company, their ultimate beneficial owners and parties acting in concert with any of them, Yu Ming, INCU, Astrum, the Registrar or any of their respective directors or any persons involved in the Offers is in a position to advise the Independent Shareholders on their individual tax implications. Independent Shareholders and Independent Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. It is emphasised that none of the Offerors, the Company, their ultimate beneficial owners and parties acting in concert with any of them, Yu Ming, INCU, Astrum, the Registrar or any of their respective directors, officers or associates or any persons involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance or rejection of the Offers.

### COMPULSORY ACQUISITION

The Offerors do not intend to exercise any right which may be available to them under the provisions of the laws of Bermuda to compulsorily acquire any outstanding Offer Shares not acquired pursuant to the Share Offer after the close of the Offers.

### GENERAL

All documents and remittances will be sent to the Shareholders by ordinary post at such Shareholder's own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members of the Company, or in the case of joint Shareholders, to the Shareholder whose name appears first in the said register of members, unless otherwise specified in the accompanying Forms of Acceptance completed, returned and received by the Registrar. None of the Offerors, the Company, their ultimate beneficial owners and parties acting in concert with any of them, Yu Ming, INCU, Astrum, the Registrar or any of their respective directors, officers or associates or any other person involved in the Offers will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information regarding the Offers set out in the appendices to this Composite Document and the accompanying Forms of Acceptance, which form part of this Composite Document. In addition, your attention is also drawn to the "Letter from the Board", the "Letter from the Independent Board Committee" and the letter of advice by the independent financial adviser to the Independent Board Committee as set out in the "Letter from Astrum" contained in this Composite Document.

Yours faithfully,  
For and on behalf of  
**Yu Ming Investment Management Limited**  
**Warren Lee**  
*Managing Director*

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LETTER FROM THE BOARD

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The logo for Perfectech, featuring the word "Perfectech" in a bold, sans-serif font inside a black rounded rectangle.

**PERFECTECH INTERNATIONAL HOLDINGS LIMITED**

**威發國際集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 765)

*Executive Director*

Mr. Poon Siu Chung

Dr. Poon Wai Tsun, William

Mr. Poon Wai Yip, Albert

*Registered Office*

Canon's Court

22 Victoria Street

Hamilton HM12, Bermuda

*Independent non-executive Directors*

Mr. Lam Yat Cheong

Mr. Yip Chi Hung

Mr. Choy Wing Keung, David

*Principal place of business*

Units C & D, 9/F, Sing Teck

Factory Building

44 Wong Chuk Hang Road

Aberdeen, Hong Kong

24 October 2016

*To the Independent Shareholders and the Independent Optionholders,*

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFERS BY  
YU MING INVESTMENT MANAGEMENT LIMITED  
ON BEHALF OF  
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
PERFECTECH INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED  
TO BE ACQUIRED BY  
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED AND  
PARTIES ACTING IN CONCERT WITH THEM) AND  
TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

**INTRODUCTION**

Reference is made to the Joint Announcement whereby the Offerors and the Company jointly announced that, on 3 October 2016, a voluntary conditional cash offers would be made by Yu Ming, on behalf of the Offerors, (i) to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offerors and their Concert Parties) and (ii) to cancel all outstanding Options in compliance with Rule 13 of the Takeovers Code.

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## LETTER FROM THE BOARD

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The purpose of the Composite Document (of which this letter forms part) is to provide you with, among other things: (i) further information relating to the Group, the Offerors and the Offers; (ii) the “Letter from Yu Ming” containing details of the Offers; (iii) the “Letter from the Independent Board Committee” containing its recommendations to the Independent Shareholders and the Independent Optionholders in relations to the Offers; (iv) the “Letter from Astrum” containing its advice to the Independent Board Committee on whether the terms of the Offers are fair and reasonable so far as the Independent Shareholders and Independent Optionholders are concerned and on acceptance in respect of the Share Offer and the Option Offer.

Unless the context otherwise requires, terms defined in the Composite Document shall have the same meanings when used in this letter

### INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, has been established to give recommendations (i) as to whether the terms of the Offers are fair and reasonable and (ii) as to the acceptance of the Offers. Each member of the Independent Board Committee has confirmed to the Company that, save for their interests in Options as disclosed in Appendix III to this Composite Document, they have not involved in the Offers, and has no direct or indirect interest in the Offers.

As disclosed in the announcement of the Company dated 7 October 2016, Astrum has been appointed as the independent financial adviser to the Independent Board Committee, the Independent Shareholders and the Independent Optionholders in respect of the Offers. Such appointment has been approved by the Independent Board Committee.

The full texts of the letter from the Independent Board Committee addressed to the Independent Shareholders and the Independent Optionholders and the letter from Astrum addressed to the Independent Board Committee, the Independent Shareholders and the Independent Optionholders are set out in this Composite Document. **You are advised to read both letters and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the Offers.**

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## LETTER FROM THE BOARD

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### THE OFFERS

As disclosed in the “Letter from Yu Ming”, Yu Ming, on behalf of the Offerors, makes the voluntary conditional cash offers to all Independent Shareholders and the Independent Optionholders (i) to acquire all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offerors and their Concert Parties); and (ii) to cancel all outstanding Options on the following basis:

#### The Share Offer

For each Offer Share ..... HK\$1.815 in cash

#### The Option Offer

For outstanding Options with an exercise prices of HK\$0.77 each

For the cancellation of each such Option ..... HK\$1.045 in cash

For outstanding Options with an exercise prices of HK\$1.46 each

For the cancellation of each such Option ..... HK\$0.355 in cash

#### Comparison of value

The Share Offer Price of HK\$1.815 per Offer Share represents:

- (i) a premium of approximately 8.04% over the closing price of HK\$1.68 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 7.40% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day of approximately HK\$1.69 per Share;
- (iii) a premium of approximately 6.76% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day of approximately HK\$1.70 per Share;
- (iv) a premium of approximately 12.04% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day of approximately HK\$1.62 per Share;
- (v) a premium of approximately 1.40% over the closing price of HK\$1.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a premium of approximately 2.88 times over the unaudited consolidated net asset value per Share as at 30 June 2016 of approximately HK\$0.63 (which was calculated by dividing the sum of the unaudited consolidated net asset value of the Group as at 30 June 2016 of approximately HK\$206.76 million by 326,923,607 Shares in issue as at the Latest Practicable Date).

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## LETTER FROM THE BOARD

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### Highest and Lowest Share Prices

During the Relevant Period, the highest closing price per Share as quoted on the Stock Exchange was HK\$1.84 on 10 December 2015 and the lowest closing price per Share as quoted on the Stock Exchange was HK\$1.13 on 20 January 2016.

### Conditions of the Offers

The Share Offer is subject to the fulfillment or waiver, as applicable, the following Conditions:

- (a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offerors may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares acquired or agreed to be acquired before or during the Offers, will result in the Offerors and their Concert Parties together holding not less than 70% of the voting rights of the Company;
- (b) the Shares remaining listed and traded on the Stock Exchange up to the Closing Date save for any temporary suspension(s) of trading in the Shares as a result of the Offers and no indication being received on or before the Closing Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn, other than as a result of the Offers; and
- (c) no events, up to the Closing Date, having occurred which would make the Offers or the acquisition of any of the Shares or cancellation of the Options under the Offers void, unenforceable or illegal or their implementation being prohibited or which would impose material conditions, limitations or obligations with respect to the Offers.

The Offerors reserve the right, acting jointly, to waive, in whole or in part, Condition (b). Conditions (a) and (c) cannot be waived.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offerors should not invoke Conditions (c) so as to cause the Offers to lapse unless the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offerors in the context of the Offers.

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offerors reserve the right to revise the terms of the Offers in accordance with the Takeovers Code.

Further details of the Offers are set out in the “Letter from Yu Ming” and the additional information contained in the appendices to this Composite Document and the accompanying Forms of Acceptance.

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## LETTER FROM THE BOARD

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**The Offers may or may not become unconditional. Independent Shareholders, Independent Optionholders and potential investors should exercise caution when dealing in the securities of the Company, and if they are in any doubt about their position, they should consult their professional advisers.**

### **IRREVOCABLE UNDERTAKINGS**

On 27 September 2016 (after trading hours), each of the Controlling Shareholders has executed the Poons Irrevocable Undertakings in favour of the Offerors, pursuant to which each of Mr. Poon, Ms. Lau and Mime has irrevocably undertaken to the Offerors that they will accept the Share Offer in respect of the Shares held by each of them.

On 30 September 2016, each of Mr. Leung and his Affiliates has executed the Leungs Irrevocable Undertakings in favour of the Offerors, pursuant to which each of Mr. Leung and his Affiliates has irrevocably undertaken to the Offerors that they will accept the Share Offer in respect of the Shares held by each of them.

As at the Latest Practicable Date, the Controlling Shareholders, namely, Mr. Poon, Ms. Lau and Mime are beneficial owners of 22,764,000 Shares, 16,404,000 Shares and 101,139,430 Shares, representing approximately 6.96%, 5.02% and 30.94% of the total issued Shares, respectively; Mr. Leung and his Affiliates are interested in 61,365,200 Shares, representing approximately 18.77% of the total issued Shares.

Prior to the closing, lapse or withdrawal of the Share Offer, each of Mr. Poon, Ms. Lau, Mime and Mr. Leung and his Affiliates has undertaken not to sell or transfer (or cause the same to be done) or otherwise dispose of (or permit any such action to occur in respect of) any interest in any Shares beneficially owned by them and not to withdraw or procure the withdrawal of acceptance of the undertaking Shares.

The Poons Irrevocable Undertaking will remain effective unless the Offers lapse or are withdrawn. The Leungs Irrevocable Undertaking will remain effective unless the Offers lapse and will otherwise remain valid and effective for a period of 100 days from the date of the execution of each undertaking. Save for disclosed above, there are no other circumstances under which the Irrevocable Undertakings may cease to be binding.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE GROUP

#### Principal activities

The Company is incorporated in Bermuda and is an investment holding company. Its subsidiaries are principally engaged in manufacturing and the sales of novelties, decoration and toy products.

#### Financial information

Set out below is a summary of the financial information of the Group extracted from the annual report for the year ended 31 December 2015 and interim report for the six months ended 30 June 2016 of the Group, which has been prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended	
	31 December	
	2015	2014
	(audited)	(audited)
	HK\$'000	HK\$'000
Revenue	198,088	225,549
(Loss)/profit before tax	(10,708)	13,840
(Loss)/profit for the year attributable to owners of the Company	(16,090)	7,677
	As at	As at
	30 June 2016	31 December 2015
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Total assets	268,887	253,041
Total liabilities	62,131	54,346
Net assets	206,756	198,695

#### Shareholding structure of the Company

As at the Latest Practicable Date, there were 326,923,607 Shares in issue and 16,452,000 Options outstanding, details of which are set out in the section headed "Share capital of the Company" in Appendix III to this Composite Document.

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## LETTER FROM THE BOARD

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The shareholding structure of the Company as at the Latest Practicable Date was as follows:

Shareholder	As at the Latest Practicable Date	
	No. of Shares	%
<b><i>The Controlling Shareholders and their respective Concert Parties</i></b>		
– Mime ( <i>Note 1</i> )	101,139,430	30.94%
– Mr. Poon	22,764,000	6.96%
– Ms. Lau	16,404,000	5.02%
<b>Sub-total</b>	<b>140,307,430</b>	<b>42.92%</b>
Mr. Leung, Nielsen Limited and its Concert Parties ( <i>Note 2</i> )	61,365,200	18.77%
Pengana Asia Special Events Master Fund and its Concert Parties ( <i>Note 3</i> )	17,662,000	5.40%
Public Shareholders	107,588,977	32.91%
<b>Total</b>	<b>326,923,607</b>	<b>100.00%</b>

*Notes:*

1. Mime Limited, a limited company incorporated in Hong Kong and was owned as to 55% by Mr. Poon and as to 45% by his spouse, Ms. Lau.
2. Mr. Leung was deemed to be interested in such Shares since he owned 100% interest in Hong Kong China Development Holdings Limited, which is the sole beneficial owner of all the issued share of Nielsen Limited.
3. Pengana Asia Special Events Master Fund is managed by its investment manager, Pengana Capital Limited which is an independent third party to the Company and the Controlling Shareholders.

Your attention is drawn to Appendices II and III to this Composite Document which contain further financial and general information of the Group.

### INTENTIONS OF THE OFFERORS IN RELATION TO THE COMPANY

As stated in the “Letter from Yu Ming”, the Offerors intend to continue the existing businesses of the Group. As at the Latest Practicable Date, the Offerors have no plan to inject any assets or businesses into the Group or to procure the Group to acquire or dispose of any assets.

Immediately after the close of the Offers, the Offerors will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. As at the Latest Practicable Date, the Offerors have not identified such investment or business opportunities.

The Offerors have no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for the proposed change of the Board composition as detailed in the section headed “Proposed change of composition of the Board” below) or to dispose of or re-allocate the Group’s assets which are not in the ordinary and usual course of business of the Group.

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## LETTER FROM THE BOARD

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### **Proposed change of composition of the Board**

As stated in the “Letter from Yu Ming”, upon close of the Offers, save for Mr. Poon Wai Yip, Albert, all other existing Directors will resign with effect from the earliest time as permitted under the Takeovers Code which is the day immediately after the first closing date of the Offers or is declared unconditional or such later date.

The Offerors intend to nominate new directors to the Board upon the Offers becoming unconditional in all respects or such later date.

Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made as and when appropriate.

### **Maintaining the listing status of the Company**

As stated in the “Letter from Yu Ming”, the Offerors have no intention to privatise the Group and intend to maintain the listing of the Shares on the Stock Exchange. The remaining Director and directors of the Offerors have jointly and severally undertaken to the Stock Exchange that in the event that after the close of the Offers, the public float of the Company falls below 25%, they would take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible, to ensure that sufficient public float exists for the Shares. The directors of the Offerors will also procure the new directors to be appointed to the Board to undertake the same upon their appointments.

The Stock Exchange has stated that if, upon closing of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that:–

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

The Board is aware of the Offerors’ intention regarding the Group and its employees and the proposed change of Board composition, and is willing to render co-operation with the Offerors and would continue to act in the best interests of the Group and the Shareholders as a whole.

Your attention is drawn to the section headed “Information on the Offerors” in the “Letter from Yu Ming” for information on the Offerors.

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## LETTER FROM THE BOARD

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### COMPULSORY ACQUISITION

As stated in the “Letter from Yu Ming”, the Offerors do not intend to exercise any right which may be available to them under the provisions of the laws of Bermuda to compulsorily acquire any outstanding Offer Shares not acquired pursuant to the Share Offer after the close of the Offers.

### RECOMMENDATION

Your attention is drawn to (i) the “Letter from the Independent Board Committee” as set out on pages 26 to 27 of this Composite Document, which contains its recommendation to the Independent Shareholders and the Independent Optionholders in respect of the Offers, and (ii) the “Letter from Astrum” as set out on page 28 to 49 of this Composite Document, which contains, among other things, its advice to the Independent Board Committee, the Independent Shareholders and the Independent Optionholders in relation to the Offers and the principal factors considered by it before arriving at its recommendation.

By order of the Board of  
**Perfectech International Holdings Limited**  
**Poon Siu Chung**  
*Chairman and Managing Director*



**PERFECTECH INTERNATIONAL HOLDINGS LIMITED**

**威發國際集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 765)

24 October 2016

*To the Independent Shareholders and Independent Optionholders,*

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFERS BY  
YU MING INVESTMENT MANAGEMENT LIMITED  
ON BEHALF OF  
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
PERFECTECH INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED  
TO BE ACQUIRED BY  
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED AND  
PARTIES ACTING IN CONCERT WITH THEM) AND  
TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

We refer to the Composite Document dated 24 October 2016 issued jointly by the Offerors and the Company of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meaning as those defined in the Composite Document.

We have been appointed to form the Independent Board Committee to consider the terms of the Offers and to give recommendations to the Independent Shareholders and the Independent Optionholders as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as they are concerned and as to the acceptance of the Offers. Astrum has been appointed as the independent financial adviser to advise us in this respect. Detail of its advice and the principal factors and reasons taken into consideration in arriving at its advice are set out in the “Letter from Astrum” on page 28 to 49 of the Composite Document.

We also wish to draw your attention to the “Letter from the Board”, the “Letter from Yu Ming” and the additional information set out in the appendices to the Composite Document.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We, being the members of the Independent Board Committee, have declared that, save for our interests in Options as disclosed in Appendix III to this Composite Document, we are independent and do not have any conflict of interest in respect of the Offers and are therefore able to consider the terms of the Offers and to make recommendations to the Independent Shareholders and the Independent Optionholders

### RECOMMENDATIONS

Having considered the terms of the Offers and the advice from Astrum, in particular the factors, reasons and recommendations as set out in the “Letter from Astrum”, we concur with the view of the independent financial adviser and consider that:

- (a) the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned, and recommend the Independent Shareholders to accept the Share Offer; and
- (b) the terms of the Option Offer are fair and reasonable so far as the Independent Optionholders are concerned, and recommend the Independent Optionholders to accept the Option Offer.

Notwithstanding our recommendations, the Independent Shareholders and the Independent Optionholders are strongly advised that their decision to realise or to hold their investment in the Company depends on their own individual circumstances and investment objectives. If in any doubt, the Independent Shareholders and the Independent Optionholders should consult their own professional advisers for professional advice.

Yours faithfully,  
The Independent Board Committee  
**Perfectech International Holdings Limited**

**Mr. Lam Yat Cheong      Mr. Yip Chi Hung      Mr. Choy Wing Keung, David**

*Independent non-executive Directors*

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## LETTER FROM ASTRUM

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Room 2704, 27/F, Tower 1, Admiralty Centre,  
18 Harcourt Road, Admiralty, Hong Kong

24 October 2016

To the Independent Board Committee,  
the Independent Shareholders and the Independent Optionholders of  
**Perfectech International Holdings Limited**

Dear Sirs,

**VOLUNTARY CONDITIONAL CASH OFFERS BY  
YU MING INVESTMENT MANAGEMENT LIMITED  
ON BEHALF OF  
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
PERFECTECH INTERNATIONAL HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED  
TO BE ACQUIRED BY  
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED AND  
PARTIES ACTING IN CONCERT WITH THEM) AND  
TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

### INTRODUCTION

We refer to our engagement as the independent financial adviser to make recommendations to the independent board committee (the “**Independent Board Committee**”) of Perfectech International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) in relation to the voluntary conditional cash offers (the “**Offers**”) made by Yu Ming Investment Management Limited (“**Yu Ming**”) on behalf of Star Fly Limited (“**Star Fly**”) and Fresh Choice Holdings Limited (“**Fresh Choice**”, together with Star Fly, the “**Offerors**”) to (i) acquire all the issued shares of the Company (other than those shares already owned or agreed to be acquired by the Offerors and parties acting in concert with them); and (ii) cancel all outstanding share options of the Company in compliance with Rule 13 of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”). Details of the Offers are disclosed in the composite offer and response document in respect of the Offers jointly issued by the Offerors and the Company dated 24 October 2016 (the “**Composite Document**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

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## LETTER FROM ASTRUM

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### THE INDEPENDENT BOARD COMMITTEE

Pursuant to Rule 2.1 and Rule 2.8 of the Takeovers Code, the Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, has been formed to advise the Independent Shareholders and the Independent Optionholders as to whether the terms of the Offers are fair and reasonable and as to the acceptance of the Offers. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee in this regard. Our appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not connected with the Company, the Controlling Shareholders or the Offerors, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, are considered suitable to give independent advice to the Independent Board Committee in respect of the Offers. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Controlling Shareholders or the Offerors, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them.

### BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, amongst others, the announcement issued by the Company dated 1 June 2016 in respect of the Exclusivity Agreement (the “**June Announcement**”), the Joint Announcement, the annual reports of the Company for the two years ended 31 December 2014 and 31 December 2015 (the “**2014 Annual Report**” and the “**2015 Annual Report**”, respectively), the interim report of the Company for the six months ended 30 June 2016 (the “**2016 Interim Report**”), and the information contained in the Composite Document. We have also discussed with and reviewed the information provided by the management of the Group (the “**Management**”) regarding the business and outlook of the Group.

We have relied on the information and facts provided, and the opinions expressed, by the Directors and the Management, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the Latest Practicable Date and the Shareholders and the Optionholders will be notified of any material changes to such representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have sought and received confirmation from the Directors and the Management that no material facts have been omitted from the information provided and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our opinion and recommendations as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information provided.

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## LETTER FROM ASTRUM

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We have not considered the tax and regulatory implications on the Independent Shareholders and Independent Optionholders of their acceptances or non-acceptances of the Offers since these are particular to their own individual circumstances. In particular, the Independent Shareholders and the Independent Optionholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offers and, if in any doubt, should consult their own professional advisers.

### PRINCIPAL TERMS OF THE OFFERS

Yu Ming, on behalf of the Offerors, makes the voluntary conditional cash offers to all Independent Shareholders and the Independent Optionholders (i) to acquire all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offerors and their Concert Parties); and (ii) to cancel all outstanding Options on the following basis:

#### The Share Offer

**For each Offer Share . . . . . HK\$1.815 in cash**

The Offer Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all encumbrances and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

As at the Latest Practicable Date, there were 326,923,607 Shares in issue, and the Offerors and their Concert Parties were not interested in any Shares (other than as a result of the execution of the Irrevocable Undertakings).

#### The Option Offer

For outstanding Options with an exercise price of HK\$0.77 each

**For the cancellation of each such Option . . . . . HK\$1.045 in cash**

For outstanding Options with an exercise price of HK\$1.46 each

**For the cancellation of each such Option . . . . . HK\$0.355 in cash**

As at the Latest Practicable Date, there were 16,452,000 outstanding Options granted under the Share Option Scheme, carrying rights to subscribe for 16,452,000 new Shares. 16,366,000 of the outstanding Options have an exercise price of HK\$1.46, and the remaining 86,000 outstanding Options have an exercise price of HK\$0.77.

As at the Latest Practicable Date, Mr. Poon, being one of the Controlling Shareholders, and his Concert Parties held 6,058,000 Options carrying rights to subscribe for 6,058,000 new Shares.

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## LETTER FROM ASTRUM

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The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

For further details of the Offers (including the terms and procedures for acceptance of the Offers), please refer to the “*Letter from Yu Ming*” as set out on pages 6 to 16 of the Composite Document, Appendix I to the Composite Document and the accompanying Form(s) of Acceptance. The Independent Shareholders and the Independent Optionholders are urged to read the relevant sections in the Composite Document in full.

### CONDITIONS OF THE OFFERS

The Share Offer is subject to the fulfillment or waiver, as applicable, the following Conditions:

- (a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offerors may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares acquired or agreed to be acquired before or during the Offers, will result in the Offerors and their Concert Parties together holding not less than 70% of the voting rights of the Company;
- (b) the Shares remaining listed and traded on the Stock Exchange up to the Closing Date save for any temporary suspension(s) of trading in the Shares as a result of the Offers and no indication being received on or before the Closing Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn, other than as a result of the Offers; and
- (c) no events, up to the Closing Date, having occurred which would make the Offers or the acquisition of any of the Shares or cancellation of the Options under the Offers void, unenforceable or illegal or their implementation being prohibited or which would impose material conditions, limitations or obligations with respect to the Offers.

The Offerors reserve the right, acting jointly, to waive, in whole or in part, Condition (b). Conditions (a) and (c) cannot be waived.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offerors should not invoke Condition (c) so as to cause the Offers to lapse unless the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offerors in the context of the Offers.

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offerors reserve the right to revise the terms of the Offers in accordance with the Takeovers Code.

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## LETTER FROM ASTRUM

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the terms of the Offers, we have considered the following principal factors and reasons:

#### 1. Business, financial performance and prospects of the Group

##### A. *Business of the Group*

The Company was incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the manufacture and sale of novelties, decorations and toys products.

Due to the increasing costs of production in the PRC in the last decade, it has become more difficult for manufacturers to survive. The Management had already ceased the business in sale of PVC films and plastic materials in 2012 and sale of packaging products in 2013 as a result of the continuous loss incurred in these two segments. Following the trim down of business scale, the Management has been striving to improve the production efficiency by reallocating the resources to the profitable business in sale of novelties and decorations and sale of toys. Unfortunately, the performance of the remaining business was still undesirable due to the keen competition as well as the ever increasing labour cost in the PRC.

Apart from the manufacturing business, the Group makes use of the available funds on hand to invest in the financial market and investment properties in an attempt to earn stabilized income and capital gain from the investments.

##### B. *Financial performance of the Group*

Set forth below are (i) the audited consolidated financial information of the Group for the three years ended 31 December 2013, 31 December 2014 and 31 December 2015 (“**FY2013**”, “**FY2014**” and “**FY2015**”, respectively) as extracted from the 2014 Annual Report and the 2015 Annual Report; and (ii) the unaudited consolidated financial information of the Group for the six months ended 30 June 2015 and 30 June 2016 (“**PE2015**” and “**PE2016**”, respectively) as extracted from the 2016 Interim Report:

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## LETTER FROM ASTRUM

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**Table 1: Financial highlights of the Group**

	FY2013	FY2014	FY2015	PE2015	PE2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Revenue</b>	<b>248,741</b>	<b>225,549</b>	<b>198,088</b>	<b>75,311</b>	<b>87,355</b>
– <i>Novelties and decorations products</i>	66,216	57,077	36,154	11,082	7,542
– <i>Toy products</i>	182,525	168,472	161,934	64,229	79,813
<b>Gross Profit</b>	<b>66,050</b>	<b>56,538</b>	<b>44,939</b>	<b>10,371</b>	<b>20,518</b>
<b>Other income, gains and losses</b>	<b>9,425</b>	<b>1,682</b>	<b>(3,842)</b>	<b>7,879</b>	<b>3,121</b>
<b>Profit/(loss) attributable to owners of the Company for the year/period</b>	<b>12,512</b>	<b>7,677</b>	<b>(16,090)</b>	<b>(13,440)</b>	<b>1,565</b>
		<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>		<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>		<i>(unaudited)</i>
<b>Non-current assets</b>	79,363	116,331	100,955		98,814
<b>Current assets</b>	201,243	147,805	152,086		170,073
<b>(Current liabilities)</b>	(65,609)	(66,919)	(54,148)		(62,130)
<b>Net current assets</b>	135,634	80,886	97,938		107,943
<b>Equity attributable to owners of the Company</b>	<b>200,909</b>	<b>182,301</b>	<b>182,987</b>		<b>190,617</b>

*Source: the annual reports and interim report of the Company*

(i) *For the year ended 31 December 2014 (i.e. FY2014)*

In FY2014, the Group recorded revenue of approximately HK\$225.5 million, representing a decrease of approximately 9.3% as compared to that in FY2013. Revenue from sales of toy products decreased from approximately HK\$182.5 million in FY2013 to approximately HK\$168.5 million in FY2014. The decrease in revenue was mainly due to the unfavourable global economy, especially in Europe, and the weak demand for consumer products. The revenue generated from Europe recorded a significant decrease from approximately HK\$85.6 million in FY2013 to approximately HK\$53.4 million in FY2014, representing a decrease of approximately of 37.6%.

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## LETTER FROM ASTRUM

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In FY2013, the Group recorded a profit from investments of approximately HK\$2.9 million and an increase in fair value in investment property of approximately HK\$1.2 million. However, in FY2014, the Group recorded a loss from investments of approximately HK\$1.7 million and a minimal increase in fair value in investment property of approximately HK\$34,000.

Profit attributable to owners of the Company decreased substantially from approximately HK\$12.5 million in FY2013 to approximately HK\$7.7 million in FY2014, representing a decrease of approximately 38.6%.

As at 31 December 2014, the Group's net current assets, total assets and equity attributable to owners of the Company amounted to approximately HK\$80.9 million, approximately HK\$264.1 million and approximately HK\$182.3 million, respectively.

*(ii) For the year ended 31 December 2015 (i.e. FY2015)*

In FY2015, the revenue further decreased by approximately 12.2% from approximately HK\$225.5 million in FY2014 to approximately HK\$198.1 million in FY2015, which was primarily attributable to the slowdown of the global economy, including Europe and the PRC, and the weak demand for consumer products. The revenue generated from Europe further decreased from approximately HK\$53.4 million in FY2014 to approximately HK\$40.6 million in FY2015, representing a decrease of approximately of 24.0%.

In FY2015, the loss from investments surged to approximately HK\$11.0 million from that of approximately HK\$1.7 million in FY2014. The gain from changes in fair value of investment property increased from approximately HK\$34,000 in FY2014 to approximately HK\$400,000 in FY2015.

In addition, the Group granted Options in FY2015 and therefore incurred share-based payment expenses of approximately HK\$10.9 million.

Owing to the further decrease in revenue, the loss in investment and the share-based payment expenses, the Group recorded loss attributable to owners of the Company of approximately HK\$16.1 million in FY2015.

As at 31 December 2015, the Group's net current assets, total assets and equity attributable to owners of the Company amounted to approximately HK\$97.9 million, approximately HK\$253.0 million and approximately HK\$183.0 million, respectively.

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## LETTER FROM ASTRUM

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(iii) *For the six months ended 30 June 2016 (i.e. PE2016)*

In PE2016, the Group's revenue increased by approximately 16.0% from HK\$75.3 million in PE2015 to approximately HK\$87.4 million in PE2016. Such increase was mainly attributable to the increase in sales of toy products by approximately 24.3% to approximately HK\$79.8 million.

The profits from investments decreased from approximately HK\$4.3 million in PE2015 to approximately HK\$0.9 million in PE2016.

Since no share-based payments incurred in PE2016, administrative expenses decreased to approximately HK\$17.7 million in PE2016, representing a significant decrease of approximately 39.4% from approximately HK\$29.2 million in PE2015.

The Group recorded a profit attributable to owners of the Company of approximately HK\$1.6 million in PE2016 as compared with a loss attributable to owners of the Company of approximately HK\$13.4 million in PE2015.

As at 30 June 2016, the Group's net current assets, total assets and equity attributable to owners of the Company amounted to approximately HK\$107.9 million, approximately HK\$268.9 million and approximately HK\$190.6 million, respectively.

### ***C. Business prospects of the Group***

As advised by the Management, the costs of production in the PRC continued to maintain an increasing trend and it is not easy to recruit labour in southern China. The production facilities of the Group are located in Guangdong and thus the Group is facing pressure of significant increase in labour cost and shortage of labour. The direct labour costs as a percentage of the total costs of sales increased to approximately 31.9% in FY2015 as compared to approximately 29.4% in FY2014. According to the most recent statistics released by the Statistics Bureau of Guangdong Province, the average wage of employed persons in urban entities of the manufacturing sector in Guangdong Province increased from RMB31,277 per annum in 2010 to RMB57,419 per annum in 2015, representing a continuous upward trend with compound annual growth rate of approximately 12.9%.

On the other hand, the majority of the Group's revenue is derived from the export sale. As disclosed in the 2016 Interim Report, approximately 41.0%, 30.3% and 23.8% of the Group's revenue in PE2016 was derived from Asia (other than Hong Kong), America and Europe, respectively, and thus the Group's performance is directly affected by the global economy. The recent British referendum to exit from European Union, the economic slowdown in Europe and political uncertainties in America will bring uncertainties to the Group's business operation and financial performance.

Taking into consideration the factors as mentioned above, we are of the opinion that there remains uncertainty in the future performance of the Group.

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## LETTER FROM ASTRUM

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### 2. Principal terms of the Share Offer

The Share Offer Price of HK\$1.815 per Offer Share represents:

- (i) a premium of approximately 8.04% over the closing price of HK\$1.68 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 7.40% over the average closing price of approximately HK\$1.69 per Share for the last five (5) trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 6.76% over the average closing price of approximately HK\$1.70 per Share for the last ten (10) trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 12.04% over the average closing price of approximately HK\$1.62 per Share for the last thirty (30) trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 1.40% over the closing price of HK\$1.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a premium of approximately 2.88 times over the unaudited consolidated net asset value per Share as at 30 June 2016 of approximately HK\$0.63 (which was calculated by dividing the sum of the unaudited consolidated net asset value of the Group as at 30 June 2016 of approximately HK\$206.76 million by 326,923,607 Shares in issue as at the Latest Practicable Date).

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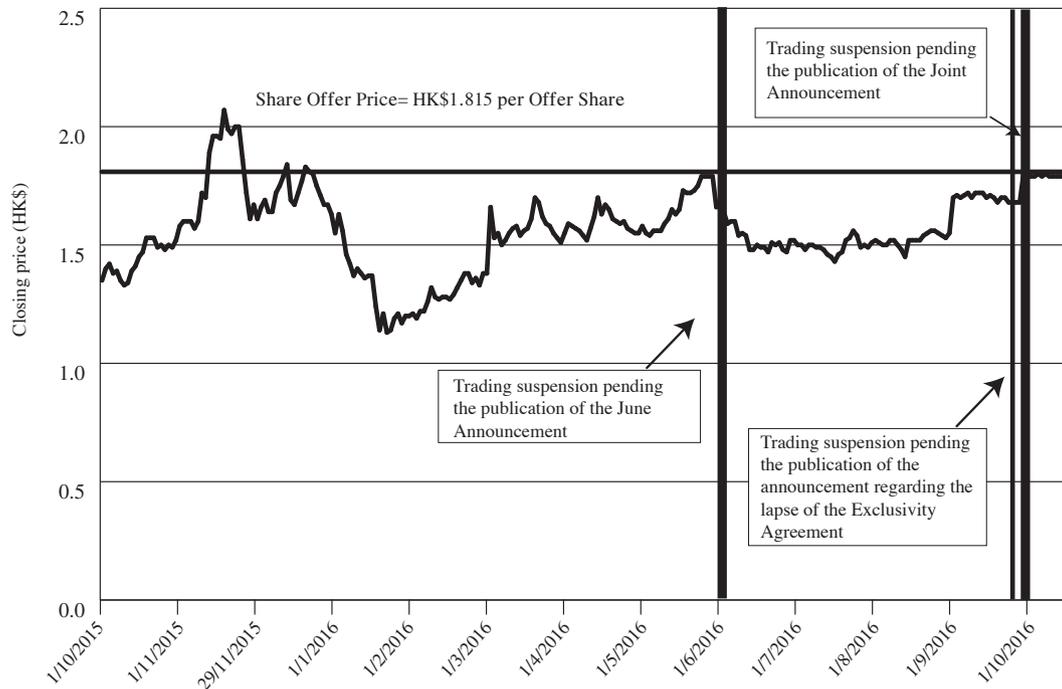
## LETTER FROM ASTRUM

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### A. *Historical price performance of the Shares*

Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 28 September 2015, being the twelve-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the “**Review Period**”):

**Chart 1: Share price performance during the Review Period**



Source: The website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

Note: During the Review Period, trading in the Shares was suspended from 30 May 2016 to 1 June 2016 (both days inclusive), 26 September 2016 and from 28 September 2016 to 30 September 2016 (both days inclusive), respectively.

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## LETTER FROM ASTRUM

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As illustrated in the chart above, during the Review Period, the closing price of the Shares ranged from the lowest closing price of HK\$1.13 recorded on 20 January 2016 to the highest closing price of HK\$2.07 recorded on 17 November 2015, with an average of approximately HK\$1.56. The Shares were traded below the Share Offer Price of HK\$1.815 throughout the Review Period, except for the period from 11 November 2015 to 24 November 2015, 10 December 2015 and 17 December 2015. The Share Offer Price represents a premium of approximately 60.6% over the lowest closing price of the Shares during the Review Period and a discount of approximately 12.3% to the highest closing price of the Shares. After issue of the Joint Announcement, the market price of the Shares exhibited an upward momentum towards the Share Offer Price.

During the period commencing from 28 September 2015 to 27 September 2016 (being the Last Trading Day) (the “**Pre-announcement Period**”), the closing price of the Shares hit the highest point of HK\$2.07 on 17 November 2015 and then fell back from the top to the lowest point of HK\$1.13 on 20 January 2016. We have enquired with the Management and were advised that the Company is not aware of any particular reason for the price movement. At the request of the Company, trading in the Shares was suspended from 30 May 2016 to 1 June 2016 (both days inclusive) pending the publication of the June Announcement. Subsequent to the issue of the June Announcement, the closing price of the Shares decreased by approximately 7.3% to HK\$1.66 on 2 June 2016 (being the first trading day after the publication of the June Announcement) as compared to that of HK\$1.79 on 27 May 2016 (being the last trading day before the publication of the June Announcement). Trading in the Shares was again suspended from 28 September 2016 to 30 September 2016 (both days inclusive) pending the publication of the Joint Announcement. On the trading day immediately prior to the publication of the Joint Announcement, being the Last Trading Day, the closing price of the Shares was HK\$1.68. Immediately after the publication of the Joint Announcement, the closing price of the Shares surged to HK\$1.80 on 3 October 2016 (being the first trading day after the publication of the Joint Announcement), which was a relatively high price during the Review Period. We consider that such rise in the closing price of the Shares may be associated with the proposed Offers as the Share Offer Price represents a premium of approximately 8.04% over the closing price of HK\$1.68 as quoted on the Stock Exchange on the Last Trading Day. As at the Latest Practicable Date, the closing price of the Shares was HK\$1.79.

Independent Shareholders should note that the information set out above is not an indicator of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing price after the Latest Practicable Date.

## LETTER FROM ASTRUM

### B. Historical trading volume of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

**Table 2: Trading volume of the Shares during the Review Period**

Month/period	Total trading volume <i>(No. of Shares)</i>	No. of trading days	Average daily trading volume <i>(No. of Shares)</i>	Percentage of the average daily trading volume to the total number of Shares in issue <i>(Note 2)</i>	Percentage of the average daily trading volume to the number of Shares held by public Shareholders <i>(Note 3)</i>
September 2015 (from 28 September 2015)	5,584,000	2	2,792,000	0.854%	2.595%
October 2015	74,504,000	20	3,725,200	1.139%	3.462%
November 2015	149,936,750	21	7,139,845	2.184%	6.636%
December 2015	126,646,000	22	5,756,636	1.761%	5.351%
January 2016	72,630,000	20	3,631,500	1.111%	3.375%
February 2016	70,250,000	18	3,902,778	1.194%	3.627%
March 2016	186,410,250	21	8,876,679	2.715%	8.251%
April 2016	154,348,200	20	7,717,410	2.361%	7.173%
May 2016 <i>(Note 1)</i>	167,860,000	19	8,834,737	2.702%	8.212%
June 2016 <i>(Note 1)</i>	24,784,000	20	1,239,200	0.379%	1.152%
July 2016	13,170,000	20	658,500	0.201%	0.612%
August 2016	12,422,000	22	564,636	0.173%	0.525%
September 2016 <i>(Note 1)</i>	20,268,500	17	1,192,265	0.365%	1.108%
October 2016 (up to the Latest Practicable Date)	34,011,000	13	2,616,231	0.800%	2.432%

Source: the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

Notes:

- Trading in the Shares was suspended from 30 May 2016 to 1 June 2016 (both days inclusive), 26 September 2016 and from 28 September 2016 to 30 September 2016 (both days inclusive), respectively.
- The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company as at the Latest Practicable Date (i.e. 326,923,607 Shares).
- The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by public Shareholders as at the Latest Practicable Date (i.e. 107,588,977 Shares). In the content of this section, the number of Shares held by public Shareholders means the total issued share capital of the Company less the Shares held by the Controlling Shareholders.

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## LETTER FROM ASTRUM

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As illustrated in the table above, the average daily trading volume for the respective month/period during the Review Period ranged from approximately 564,636 Shares to approximately 8,876,679 Shares, representing approximately 0.173% to approximately 2.715% of the total number of the Shares in issue as at the Latest Practicable Date, or approximately 0.525% to approximately 8.251% of the total number of Shares held by public Shareholders as at the Latest Practicable Date.

The trading volume of the Shares was relatively higher from March 2016 to May 2016. We have enquired with the Management and were advised that save for the announcement in respect of the profit warning made on 8 March 2016 and the annual results announcement of the Company for the year ended 31 December 2015 dated 30 March 2016, the Company did not issue any other announcement which is of price-sensitive nature during the respective period and the Management is not aware of any particular reason for the relatively higher trading volume. Following the publication of the June Announcement, the average daily trading volume from 2 June 2016 (the first trading day immediately following the publication of the June Announcement) up to and including the Last Trading Day represents approximately 0.274% and 0.831% of the total number of Shares in issue and the total number of Shares held by public Shareholders, respectively.

Notwithstanding that the historical daily trading volume of the Shares is relatively thin, it is noted that the daily trading volume of the Shares surged since the publication of the Joint Announcement. On 3 October 2016, the trading volume of the Shares skyrocketed to approximately 19.6 million, which was likely to be driven by the investors who wished to lock-in a profit from the price difference between the market price and the Share Offer Price. The average daily trading volume for the period commencing from 3 October 2016 to the Latest Practicable Date (the “**Post-announcement Period**”) was 2,616,213 Shares. Although the trading volume of the Shares tended to be active during the Post-announcement Period, the sustainability of the recent growth of the trading volume of the Shares after the Post-announcement Period is uncertain.

Although the trading volume of the Shares has been more active after the release of the Joint Announcement, it is still uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. Accordingly, the market price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market. Therefore, we are of the view that the Share Offer represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of the Shares, to dispose of part or all of their Shares at the Share Offer Price if they so wish to.

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## LETTER FROM ASTRUM

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### *C. Comparable analysis*

In order to further evaluate the fairness and reasonableness of the Share Offer Price, we have attempted to adopt price-to-earning ratio (the “**PE Ratio**”) and price-to-book ratio (the “**PB Ratio**”) approaches in our analysis, being two of the most commonly adopted valuation ratios. Given that the Company recorded losses for the year ended 31 December 2015, details of which are presented in the sub-paragraph headed “*B. Financial performance of the Group*” under the paragraph headed “*1. Business, financial performance and prospects of the Group*”, no earning figure is available for the calculation of the PE Ratio of the Company and therefore, it is impracticable to use the PE Ratio to value the Share Offer Price with other companies engaged in similar industry. Taking into account the loss-making position and business nature of the Group, we considered that the PB Ratio would be the most appropriate and relevant approach to evaluate companies with substantial asset base. Thus, we have conducted an analysis with reference to the PB Ratio. Initially, we have attempted to identify comparable companies which (i) are listed on the Stock Exchange; (ii) are engaged in both the manufacture and sale of toys products and the manufacture and sale of novelties and decoration products; and (iii) were of market capitalization less than HK\$2 billion as at the Latest Practicable Date. However, we cannot identify any comparable company which can meet the above criteria.

In this regard, we have extended the selection criteria of the comparable companies to those which (i) derived over 80% of their revenue from manufacture and sale of toys products for their respective latest financial year according to their respective latest published annual report; and (ii) were of market capitalization less than HK\$5 billion as at the Latest Practicable Date and we have identified an exhaustive list of 10 companies (the “**Comparable Companies**”). The reasons for the selection are (i) as disclosed in the 2015 Annual Report, approximately 74.7% and approximately 81.7% of the Group’s revenue were generated from manufacturing and sale of toys products in FY2014 and FY2015, respectively; and (ii) based on our review of information of companies listed on the Stock Exchange, market capitalization of companies of less than HK\$2 billion would be too limited in forming a fair list to assess the Share Offer Price and thus extending the selection criteria on market capitalization to enlarge the sample size provides a relatively more meaningful comparison of the Share Offer Price.

We consider that the selection of the Comparable Companies can reflect the general business performance and value similar to those of the Company although the analysis of which is for reference only due to the different size, financial performance, financial position and market capitalisation of the Comparable Companies when assessing the fairness and reasonableness of the Share Offer Price. The relevant details of the Comparable Companies are set forth in the following table:

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## LETTER FROM ASTRUM

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**Table 3: Details of the Comparable Companies**

Company name	Stock code	Principal activities	Market Capitalisation as at the Latest Practicable Date <i>(Approximately HK\$ million)</i>	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date <i>(Approximately HK\$ million)</i>	PB Ratio <i>(times)</i>
Kader Holdings Company Limited	180	Manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment and investment holding	655.9	1,709.0	0.38
Winshine Science Company Limited	209	Manufacturing and trading of hard and stuffed toys and securities investments	464.7	263.9	1.76
Haier Healthwise Holdings Limited	348	Development, engineering, manufacturing and sale of toys, commercial kitchen and consumer electronic products	1,597.8	581.3	2.75
Kiu Hung International Holdings Limited	381	Manufacturing and trading of toys and gifts, exploration of natural resources and investment in business related to fruit plantation	517.8	307.3	1.68
South China Holdings Company Limited	413	Trading and manufacturing of toys, shoes, electronic toys and leather products, property investment and development, and agriculture and forestry	4,162.8	5,319.2	0.78
Playmates Holdings Limited	635	Design, development, marketing and distribution of toys and family entertainment activity products, property investments, property management, restaurant operation and investment holding	1,991.5	6,155.4	0.32

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## LETTER FROM ASTRUM

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Company name	Stock code	Principal activities	Market Capitalisation as at the Latest Practicable Date <i>(Approximately HK\$ million)</i>	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date <i>(Approximately HK\$ million)</i>	PB Ratio <i>(times)</i>
Playmates Toys Limited	869	Design, development, marketing and distribution of toys and family entertainment activity products	1,507.0	1,172.3	1.29
Matrix Holdings Limited	1005	Manufacturing and trading of toys and lighting products	2,230.8	941.2	2.37
Dream International Limited	1126	Design, development, manufacture and sale of plush stuffed toys, ride-on toys and plastic figures and investment holding	1,563.6	1,113.1	1.40
Quali-Smart Holdings Limited	1348	Manufacturing and sales of toys; digital publishing, mobile and web application solutions; and securities brokerage, securities margin financing, investment advisory, corporate finance advisory and asset management services	987.3	481.8	2.05
				<b>Maximum:</b>	2.75
				<b>Minimum:</b>	0.32
				<b>Average:</b>	1.48
				<b>Median:</b>	1.54
<b>The Company</b>			585.2		3.11 <i>(Note)</i>

*Source: the website of the Stock Exchange (www.hkex.com.hk)*

*Note:* PB Ratio implied by the Share Offer Price is calculated by dividing the multiple of the Share Offer Price and the total issued share capital of the Company as at the Latest Practicable Date by the equity attributable to owners of the Company as at 30 June 2016 (i.e.  $(1.815 \times 326,923,607) / 190,617,000$ ).

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## LETTER FROM ASTRUM

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As illustrated in Table 3 above, the PB Ratios of the Comparable Companies ranged from approximately 0.32 times to approximately 2.75 times, with an average of approximately 1.48 times and a median of approximately 1.54 times. The PB Ratio implied by the Share Offer Price of approximately 3.11 times is higher than all PB Ratios of the Comparable Companies. Therefore, we are of the view that the Share Offer Price is fair and reasonable to the Independent Shareholders.

### ***D. Conclusion***

Having considered the facts that:

- (i) the Shares were traded below the Share Offer Price of HK\$1.815 per Offer Share throughout the Review Period, except for the period from 11 November 2015 to 24 November 2015, 10 December 2015 and 17 December 2015;
- (ii) the Share Offer Price of HK\$1.815 per Offer Share represents a premium of approximately 2.88 times over the unaudited consolidated net asset value per Share as at 30 June 2016 of approximately HK\$0.63 (which was calculated by dividing the sum of the unaudited consolidated net asset value of the Group as at 30 June 2016 of approximately HK\$206.76 million by 326,923,607 Shares in issue as at the Latest Practicable Date);
- (iii) it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price; and
- (iv) the PB Ratio implied by the Share Offer Price is higher than all PB Ratios of the Comparable Companies,

we are of the view that the Share Offer Price is fair and reasonable.

### **3. Principal terms of the Option Offer**

The Offerors are making the Option Offer to the Independent Optionholders in accordance with Rule 13 of the Takeovers Code. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

As at the Latest Practicable Date, there were 16,452,000 outstanding Options granted under the Share Option Scheme, carrying rights to subscribe for 16,452,000 new Shares. 16,366,000 of the outstanding Options have an exercise price of HK\$1.46, and the remaining 86,000 outstanding Options have an exercise price of HK\$0.77.

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## LETTER FROM ASTRUM

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The Option Offer to cancel each Option is calculated on a “see-through” basis, pursuant to which each Independent Optionholder will be entitled to receive a price for his/her Options being the amount by which the Share Offer Price exceeds the exercise price of his/her Options. We note that the adoption of a “see-through” basis is normally adopted in Hong Kong for general offers of a similar nature. Therefore, we consider such basis of determining the offer price of the Option Offer is acceptable and in line with market practice.

#### **4. Irrevocable Undertakings**

On 27 September 2016 (after trading hours), each of the Controlling Shareholders has executed the Poons Irrevocable Undertakings in favour of the Offerors, pursuant to which each of Mr. Poon, Ms. Lau and Mime has irrevocably undertaken to the Offerors that they will accept the Share Offer in respect of the Shares held by each of them.

On 30 September 2016, each of Mr. Leung and his Affiliates has executed the Leungs Irrevocable Undertakings in favour of the Offerors, pursuant to which each of Mr. Leung and his Affiliates has irrevocably undertaken to the Offerors that they will accept the Share Offer in respect of the Shares held by each of them.

As at the Latest Practicable Date, the Controlling Shareholders, namely, Mr. Poon, Ms. Lau and Mime are beneficial owners of 22,764,000 Shares, 16,404,000 Shares and 101,139,430 Shares, representing approximately 6.96%, 5.02% and 30.94% of the total issued Shares, respectively; Mr. Leung and his Affiliates are interested in 61,365,200 Shares, representing approximately 18.77% of the total issued Shares. Thus, pursuant to the Irrevocable Undertakings, 201,672,630 Ordinary Shares, representing approximately 61.69% of the total issued Share, will be accepted under the Share Offer.

Prior to the closing, lapse or withdrawal of the Share Offer, each of Mr. Poon, Ms. Lau, Mime and Mr. Leung and his Affiliates has undertaken not to sell or transfer (or cause the same to be done) or otherwise dispose of (or permit any such action to occur in respect of) any interest in any Shares beneficially owned by them and not to withdraw or procure the withdrawal of acceptance of the undertaking Shares.

The Poons Irrevocable Undertakings will remain effective unless the Offers lapse or are withdrawn. The Leungs Irrevocable Undertakings will remain effective unless the Offers lapse and will otherwise remain valid and effective for a period of 100 days from the date of the execution of each undertaking. Save for disclosed above, there are no other circumstances under which the Irrevocable Undertakings may cease to be binding.

#### **5. Information on the Offerors and the intention of the Offerors in relation to the Group**

##### ***A. Information on the Offerors***

As stated in the “*Letter from Yu Ming*” contained in the Composite Document, the Offerors consist of Star Fly and Fresh Choice, both of which are companies incorporated in the British Virgin Islands with limited liability.

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## LETTER FROM ASTRUM

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Star Fly is an investment holding company wholly-owned by Mr. Zhai, its sole director. Mr. Zhai, aged 47, has over 20 years of experience in the financial and securities industry and has worked at leading financial institutions and a leading accounting firm, specialising in direct investment and corporate finance. Mr. Zhai graduated from Murdoch University in Australia with a bachelor's degree in commerce, and is a member of the Shanxi Provincial People's Political Consultative Conference. Save for entering into the Exclusivity Agreement and engaging advisers for the purposes of the Offers, Star Fly has not conducted any business since its incorporation.

Fresh Choice is an investment holding company owned as to 90% by Mr. Gao and 10% by Mr. Wu. Mr. Gao, aged 36, is the sole director of Fresh Choice. He has over 10 years of experience in the investment and accounting fields. Mr. Gao graduated from Communication University of China with a bachelor's degree in accounting. Mr. Wu, aged 52, has over 25 years of experience in international sales and marketing. He graduated from Beijing Jiaotong University with a bachelor's degree in civil engineering. Save for entering into the Exclusivity Agreement and engaging advisers for the purposes of the Offers, Fresh Choice has not conducted any business since its incorporation.

Other than (i) in relation to the making of the Offers, (ii) and the relationship between Mr. Gao and Mr. Wu as shareholders of, and lenders to, Fresh Choice as disclosed in this Composite Document, there is no prior or present relationship (whether business, financial or otherwise) between each of Mr. Zhai, Mr. Gao and Mr. Wu. As at the date hereof, none of Mr. Zhai, Mr. Gao nor Mr. Wu intends or contemplates entering into any relationship with each other in the future (whether business, financial or otherwise).

As at the Latest Practicable Date, Mr. Zhai has advanced a shareholder's loan representing 50% of the total consideration for the Offers to Star Fly; and each of Mr. Gao and Mr. Wu has advanced a shareholder's loan representing 45% and 5% respectively of the total consideration for the Offers to Fresh Choice. Subject to the Share Offer becoming unconditional in all respects, it is intended that each of Star Fly and Fresh Choice will finance the Offers on an equal basis, and that their respective shareholding interests in the Company will be proportionate to their respective financial contributions to the Offers.

### ***B. Intention of the Offerors regarding the Group***

As stated in the paragraph headed "*Intentions of the Offerors regarding the Group*" in the "*Letter from Yu Ming*" contained in the Composite Document, the Offerors intend to continue the existing businesses of the Group. As at the Latest Practicable Date, the Offerors had no plan to inject any assets or businesses into the Group or to procure the Group to acquire or dispose of any assets.

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## LETTER FROM ASTRUM

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Immediately after the close of the Offers, the Offerors will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. As at the Latest Practicable Date, the Offerors had not identified such investment or business opportunities.

The Offerors have no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for the proposed change of the Board composition as detailed in the section headed “*Proposed Change of Composition of the Board*” in the “Letter from Yu Ming” contained in the Composite Document) or to dispose of or re-allocate the Group’s assets which are not in the ordinary and usual course of business of the Group.

### ***C. Proposed Change of Composition of the Board***

As stated in the “*Letter from Yu Ming*” contained in the Composite Document, upon close of the Offers, save for Mr. Poon Wai Yip, Albert, all other existing Directors will resign with effect from the earliest time as permitted under the Takeovers Code which is the day immediately after the first Closing Date of the Offers or is declared unconditional or such later date. The Offerors intend to nominate new Directors to the Board upon the Offers becoming unconditional in all respect or such later date. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made as and when appropriate.

Since the Offerors intend to continue the existing business of the Group and do not re-deploy the employees and Mr. Poon Wai Yip, Albert will remain as a Director, the Directors expect the business of the Group will not be materially affected in the immediate future with the formation of the new Board. However, we are of the view that the future business performance and development of the Group will depend on the contribution from and the decision of the new Board on the overall strategic planning of the Group. In particular for the existing business of the Group, despite the fact that the ultimate beneficial owners of the Offerors have extensive management experience in various industries, they do not have direct experience in the business of the manufacture and sale of novelties, decorations and toys products, in which the Group is engaged. Therefore we are of the view that there remains uncertainty on the future performance of the Group under the new controlling Shareholders (i.e. the Offerors).

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## LETTER FROM ASTRUM

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### *D. Maintaining the listing status of the Company*

As stated in the “*Letter from Yu Ming*” contained in the Composite Document, the Offerors have no intention to privatise the Group and intend to maintain the listing of the Shares on the Stock Exchange. The remaining Director and directors of the Offerors have jointly and severally undertaken to the Stock Exchange that in the event that after the close of the Offers, the public float of the Company falls below 25%, they would take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible, to ensure that sufficient public float exists for the Shares. The directors of the Offerors will also procure the new directors to be appointed to the Board to undertake the same upon their appointments.

**The Stock Exchange has stated that if, upon completion of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares.**

### OPINION AND RECOMMENDATION

In view of the above, we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. On such basis, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer. We also consider that the terms of the Option Offer are fair and reasonable so far as the Independent Optionholders are concerned and accordingly advise the Independent Board Committee to recommend the Independent Optionholders to accept the Option Offer. However, Independent Shareholders and Independent Optionholders are reminded that the Offers are subject to the conditions becoming unconditional.

In view of the volatility of market conditions, those Independent Shareholders and Independent Optionholders who intend to accept the Share Offer and/or Option Offer are strongly reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and should consider selling their Shares in the open market, instead of accepting the Offers, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Offers after having regard to the market price and the liquidity of the Shares. However, the Independent Optionholders are reminded that there will be a time lag between the exercise of the Options and the receipt of the conversion Shares due to the time required for the administrative procedures for exercising the Options. Accordingly, the Independent Optionholders who wish to exercise their Options should be mindful of the possible price fluctuations of the Shares during the aforesaid time lag.

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## LETTER FROM ASTRUM

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For those Independent Shareholders and Independent Optionholders who are attracted by and confident in the future prospects of the Group, given the background of the Offerors as detailed in the “*Letter from Yu Ming*” contained in the Composite Document and notwithstanding that no detailed business plan has been laid down by the Offerors, they may consider to retain their Shares in full or in part. We would like to remind the Independent Shareholders and the Independent Optionholders that if they consider retaining their Shares or tendering less than all their Shares under the Offers or exercising their Options, they should carefully consider the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offers in view of the historical low liquidity of the Shares and there is no guarantee that the prevailing level of the Share price will sustain during and after the Offer Period.

Independent Optionholders should note that the Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

The Independent Shareholders and the Independent Optionholders are strongly advised that the decision to realise or to continue to hold their investments in the Shares is subject to individual circumstances and investment objectives. The Independent Shareholders and the Independent Optionholders are also reminded to read carefully the procedures for accepting the Offers, details of which are set out in Appendix I to the Composite Document and the accompanying Form(s) of Acceptance, if they wish to accept the Offers.

Yours faithfully,  
For and on behalf of  
**Astrum Capital Management Limited**  
**Hidulf Kwan**                      **Rebecca Mak**  
*Managing Director*                      *Director*

*Note:* Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in and completed various independent financial advisory transactions.

Ms. Rebecca Mak has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2012 and has participated in and completed various independent financial advisory transactions.

**1. PROCEDURES FOR ACCEPTANCE****The Share Offer**

- (a) If you accept the Share Offer, you should complete and sign the Form of Share Offer Acceptance in accordance with the instructions printed thereon, which form part of the terms and conditions of the Share Offer.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer in respect of your Shares, the duly completed and signed Form of Share Offer Acceptance should be sent, together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, marked "**Perfectech Share Offer**" on the envelope, in any event not later than 4:00 p.m., on the Closing Date or such later time and/or date as the Offerors may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.
- (c) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares in full or in part, you must either:
  - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the duly completed and signed Form of Share Offer Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Shares in respect of which you intend to accept the Share Offer to the Registrar; or
  - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the duly completed and signed Form of Share Offer Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or

- (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC to accept the Share Offer on your behalf on or before the deadline set out by HKSCC. In order to meet the deadline set by HKSCC, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
  - (iv) if your Offer Shares have been lodged with your investor participant stock account with CCASS, authorise your instruction via the CCASS phone system or CCASS internet system on or before the deadline set out by HKSCC Nominees Limited (which is normally one Business Day before the latest date on which acceptances of the Share Offer must be received by the Registrar).
- (d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an authority to the Offerors and/or Yu Ming or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Share Offer Acceptance.
- (e) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares is/are not readily available or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the Form of Share Offer Acceptance and deliver it to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

- (f) Acceptance of the Share Offer will be treated as valid only if the duly completed and signed Form of Share Offer Acceptance is received by the Registrar by no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offerors may determine and announce with the consent of the Executive and in accordance with the Takeovers Code), and the Registrar has recorded that the Form of Share Offer Acceptance and any relevant documents as required under this paragraph have been so received and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Offer Shares; or
  - (ii) from a registered Shareholder or his/her/its personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Offer Shares which are not taken into account under another sub-paragraph of this paragraph (f)); or
  - (iii) certified by the Registrar or the Stock Exchange.
- (g) If the Form of Share Offer Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.
- (h) Seller's ad valorem stamp duty for transfer of Offer Shares arising in connection with acceptances of the Share Offer will be payable by the relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offerors in respect of the relevant acceptances of the Share Offer, whichever is higher. An amount equivalent to the aforesaid stamp duty will be deducted from the cash amount payable by the Offerors to such Independent Shareholder who accepts the Share Offer (where the stamp duty calculated includes a fraction of HK\$1, the stamp duty would be rounded-up to the nearest HK\$1). The Offerors will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant Independent Shareholders accepting the Offers and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Share Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).
- (i) No acknowledgement of receipt of any Form of Share Offer Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

- (j) If the Share Offer does not become, or is not declared, unconditional in all respects within the time permitted by the Takeovers Code, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar will be returned to the Shareholders who have accepted the Share Offer by ordinary post at the Shareholders' own risk as soon as possible but in any event within 10 days after the Share Offer has lapsed.

### **The Option Offer**

- (a) If you accept the Option Offer, you should complete and sign the Form of Option Offer Acceptance in accordance with the instructions printed thereon, which form part of the terms and conditions of the Option Offer.
- (b) The duly completed and signed Form of Option Offer Acceptance should be sent, together with the certificate(s) of the Options and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) stating the number of Options in respect of which you intend to accept the Option Offer, to the company secretary of the Company at Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong, marked "**Perfectech Option Offer**" on the envelope, as soon as possible and in any event so as to reach the company secretary of the Company at the aforesaid address by no later than 4:00 p.m. on the Closing Date.
- (c) If the certificate(s) of the Options and/or other document(s) of title in respect of your Options is/are not readily available or is/are lost, as the case may be, and you wish to accept the Option Offer in respect of your Options, you should nevertheless complete and sign the Form of Option Offer Acceptance and deliver it to the company secretary of the Company together with a letter stating that you have lost one or more of your certificate(s) of the Options and/or other document(s) of title in respect of your Options or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant certificate(s) of the Options and/or any other document(s) of title should be forwarded to the company secretary of the Company as soon as possible thereafter. If you have lost your certificate(s) of the Options and/or other document(s) of title, you should also write to the company secretary of the Company requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the company secretary of the Company.
- (d) If the certificate(s) in respect of your Options and/or other document(s) of title in respect of your Options is/are not readily available or is/are lost, as the case may be, and you wish to accept the Share Offer, you must exercise the Options to the extent exercisable as indicated in section 6 of this Appendix below, but the Form of Share Offer Acceptance, together with a copy of the set of documents delivered to the Company for exercising the Options, must reach the Registrar on or before 4:00 p.m. on the Closing Date. You should also write to the company secretary of the Company requesting a letter of indemnity in respect of your Options which, when completed in accordance with the instructions given, should be returned to the company secretary of the Company.

- (e) No stamp duty will be deducted from the amount paid or payable to Optionholders who accept the Option Offer.
- (f) No acknowledgment of receipt of any Form of Option Offer Acceptance, the certificate(s) of the Options and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (g) If the Option Offer does not become, or is not declared, unconditional in all respects within the time permitted by the Takeovers Code, the certificate(s) of the Options and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the company secretary of the Company will be returned to the Optionholders who have accepted the Option Offer by ordinary post at the Optionholders' own risk as soon as possible but in any event within 10 days after the Option Offer has lapsed.

## **2. ACCEPTANCE PERIOD AND REVISION**

- (a) Unless the Offers have previously been revised or extended with the consent of the Executive and in accordance with the Takeovers Code, to be valid, the Form of Share Offer Acceptance and the Form of Option Offer Acceptance must be received by the Registrar (as regards the Share Offer) and by the company secretary of the Company (as regards the Option Offer) respectively by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the relevant Form(s) of Acceptance and the Offers will close on the Closing Date.
- (b) The Offerors and the Company will jointly issue an announcement through the website of the Stock Exchange no later than 7:00 p.m. on the Closing Date stating the results of the Offers and whether the Offers have been extended, revised or have expired.
- (c) If the Offers are extended, the announcement of such extension will state the next Closing Date or a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given to the Independent Shareholders and Independent Optionholders before the Offers are closed to those Independent Shareholders and Independent Optionholders who have not accepted the Offers.
- (d) If, in the course of the Offers, the Offerors revise the terms of the Offers, all Independent Shareholders and Independent Optionholders, whether or not they have already accepted the Offers, will be entitled to accept the revised Offers under the revised terms. The revised Offers must be kept open for at least 14 days following the date on which the revised offer document(s) are posted and shall not close earlier than the Closing Date.
- (e) If the Closing Date is extended, any references in this Composite Document and the Form(s) of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

**3. ANNOUNCEMENT**

- (a) By 6:00 p.m. on a Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offerors must inform the Executive and the Stock Exchange of their decision in relation to the revision, extension or expiry of the Offers. The Offerors must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating, amongst other information required under Rule 19.1 of the Takeovers Code, whether the Offers have been revised or extended or have expired.

Such announcement must state the following:

- (i) the total number of Shares, rights over Shares, Options and right over Options for which acceptances of the Offers have been received;
  - (ii) the total number of Shares, rights over Shares, Options and right over Options held, controlled or directed by the Offerors or parties acting in concert with any of them before the commencement date of the Offer Period;
  - (iii) the total number of Shares, rights over shares, Options and right over Options acquired or agreed to be acquired by the Offerors or parties acting in concert with any of them during the Offer Period;
  - (iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offerors or any parties acting in concert with any of them has borrowed or lent, save for any borrowed shares which have been either on-lent or sold; and
  - (v) the percentages of the relevant classes of share capital of the Company and the percentages of voting rights of the Company represented by these numbers of shares.
- (b) In computing the total number of Shares represented by acceptances, acceptances which are not in all respects in complete and good order may only be included where they could be counted towards fulfilling the acceptance conditions under paragraphs (1)(f) and (1)(g) of this Appendix.

**4. RIGHT OF WITHDRAWAL**

The Share Offer is conditional upon fulfilment of the Conditions set out in the “Letter from Yu Ming” in this Composite Document and the Option Offer is conditional upon the Share Offer becoming and being declared unconditional in all respects. Acceptance of the Share Offer and the Option Offer tendered by Shareholders and Optionholders, respectively, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the subparagraph (a) and (b) below:

- (a) in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Share Offer or the Option Offer shall be entitled to withdraw his/her/its consent after 21 days from the first Closing Date (being, 14 November 2016) and if the Offers have not by then become unconditional as to acceptances. An acceptor of the Share Offer or the Option Offer may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar (as regards the Share Offer) and/or company secretary of the Company (as regards the Option Offer);
- (b) in the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Offerors are unable to comply with any of the requirements of making announcements relating to the Offers as described under the paragraph headed “3. Announcement” above), the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

In such case, when the Independent Shareholders and/or Independent Optionholders withdraw their acceptance(s), the Offerors shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or the certificate(s) of the Options and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form(s) of Acceptance to the relevant Independent Shareholder(s) and/or Independent Optionholder(s).

Save as aforesaid, acceptances of the Offers shall be irrevocable and not capable of being withdrawn.

**5. SETTLEMENT****The Share Offer**

- (a) If you accept the Share Offer, provided that the accompanying Form of Share Offer Acceptance, together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are valid, complete and in good order in all respects and have been received by the Registrar by no later than 4:00 p.m. on the Closing Date, settlement of the consideration, less seller's ad valorem stamp duty, will be made by cheque as soon as possible, but in any event within seven (7) Business Days following the later of (i) the date of receipt by the Registrar of all relevant documents which render such acceptance complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code; and (ii) the date on which the Share Offer becomes or is declared unconditional in all respects. Each cheque will be despatched by ordinary post to the address specified on the relevant Shareholder's Form of Share Offer Acceptance at his/her/its own risk.
- (b) Settlement of the consideration to which any accepting Independent Shareholders is entitled under the Share Offer will be implemented by the Offerors in full in accordance with the terms of the Share Offer (save with respect to the payment of seller's ad valorem stamp duty) set out in this Composite Document (including this Appendix) and the accompanying Form of Share offer Acceptance without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offerors may otherwise be, or claim to be, entitled against such Independent Shareholders.
- (c) No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder who accepts the Share Offer will be rounded up to the nearest cent.

**The Option Offer**

- (a) If you accept the Option Offer, provided that the accompanying Form of Option Offer Acceptance, together with the relevant certificate(s) of the Option and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are valid, complete and in good order in all respects and have been received by the company secretary of the Company by no later than 4:00 p.m. on the Closing Date, settlement of the consideration will be made by cheque as soon as possible, but in any event within seven (7) Business Days following the later of (i) the date of receipt by the company secretary of the Company of all relevant documents which render such acceptance complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code; and (ii) the date on which the Option Offer becomes or is declared unconditional in all respects. Each cheque will be despatched to the company secretary of the Company at Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong for collection by the relevant Optionholder.

- (b) Settlement of the consideration to which any accepting Independent Optionholder is entitled under the Option Offer will be implemented by the Offerors in full in accordance with the terms of the Option Offer set out in this Composite Document (including this Appendix) and the accompanying Form of Option offer Acceptance without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offerors may otherwise be, or claim to be, entitled against such Independent Optionholders.
- (c) No fractions of a cent will be payable and the amount of cash consideration payable to an Optionholder who accepts the Option Offer will be rounded up to the nearest cent.

## **6. EXERCISE OF OPTIONS**

An Optionholder who wishes to accept the Share Offer may exercise his/her Options (to the extent exercisable) by completing, signing and delivering a notice for exercising the Options together with a cheque for payment of the subscription monies and the related certificate(s) of the Options (if applicable) to the company secretary of the Company at Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong on or before the first Closing Date, or such other time and/or date as the Offerors may, subject to the Takeovers Code, decide and announce. Optionholders should at the same time complete and sign the Form of Share Offer Acceptance and deliver it to the Registrar together with a copy of the set of documents delivered to the Company for exercising the Options. Exercise of the Options is subject to the terms and conditions of the Share Option Scheme and the terms attaching to the grant of the relevant Options. Delivery of the completed and signed Form of Share Offer Acceptance to the Registrar will not serve to complete the exercise of the Options but will only be deemed to be an irrevocable authority to the Offerors and/or the Yu Ming and/or any of their respective agent(s) or such other person(s) as they may direct to collect from the Company or the Registrar on his/her behalf the relevant share certificate(s) when issued on exercise of the Options as if it was/they were delivered to the Registrar with the Form of Share Offer Acceptance. If an Optionholder fails to exercise his/her Options as aforesaid, there is no guarantee that the Company may issue the relevant share certificate(s) in respect of the Share(s) allotted pursuant to his/her/its exercise of the Option(s) to such Optionholder in time for him/her/it to accept the Share Offer as a Shareholder of such Share(s) under the terms of the Share Offer.

## **7. LAPSE OF OPTIONS**

Nothing in this Composite Document or the Option Offer will serve to extend the life of any Option which lapses under the Share Option Scheme. No exercise of Options or acceptance of the Option Offer maybe made in relation to any Option that has lapsed.

**8. OVERSEAS INDEPENDENT SHAREHOLDERS AND INDEPENDENT OPTIONHOLDERS**

The Offerors intend to make the Share Offer and Option Offer available to all Independent Shareholders and Independent Optionholders respectively, including those who are not resident in Hong Kong. The availability of the Offers to persons who are not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws or regulations of the relevant jurisdictions. Such Independent Shareholders and Independent Optionholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe relevant applicable legal or regulatory requirements and, where necessary, seek legal advice. This Composite Document will not be filed, nor approval for its issuance sought, under the applicable securities or equivalent legislation or rules of any jurisdiction other than Hong Kong.

According to the register of members of the Company as at the Latest Practicable Date, there are seven Shareholders with registered addresses located in Macau and one Shareholder with registered address located in Canada. According to the register of Optionholders as at the Latest Practicable Date, there is no Optionholder with a registered address outside Hong Kong. The Company and the Offerors have enquired about the legal restrictions under the applicable securities legislation of the relevant jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the extension of the Share Offer to such Overseas Shareholders.

The Company and the Offerors have obtained advice from a law firm qualified to advise on Macau law, which opined that there is no requirement for any of the Company, Yu Ming or the Offerors to obtain any prior approval, consent or registration with any governmental, regulatory or such other authority in Macau in relation to the extension of the Share Offer, and the despatch of the Composite Document to Independent Shareholders with registered addresses in Macau.

The Company and the Offerors have sought legal advice from a law firm qualified to advise on Canadian law, which opined that the extension of the Share Offer to a Shareholder whose registered address is at Toronto, Canada (“Canadian Shareholder”) will be subject to the Province of Ontario Securities Act and the applicable regulations in Ontario. To comply with the local regulations in Canada would be unduly burdensome to the Company and the Offerors, as the shareholding of the Canadian Shareholder represents only approximately 0.0126% of the total issued share capital of the Company, the Offerors have therefore applied to the Executive for a waiver pursuant to Note 3 to Rule 8 of the Takeovers Code, and subject to the Executive’s consent, that the Composite Document will not be despatched to the Canadian Shareholder.

Whether or not the Composite Document is sent to the overseas Independent Shareholders or Independent Optionholders, the Composite Document will be published on the websites of the Company and the Stock Exchange, and will be available for collection in the office of the Share Registrar. It is the responsibility of the individual Independent Shareholders or Independent Optionholders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offers (including the obtaining of any regulatory or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

**Any acceptance by any Independent Shareholder or Independent Optionholder who is not resident in Hong Kong will be deemed to constitute a representation and warranty from such Shareholder or Optionholder to the Offerors that the local laws and requirements have been complied with. All such Independent Shareholders and Independent Optionholders should consult their professional advisers if in doubt.**

## **9. NOMINEE REGISTRATION**

To ensure equality of treatment of all Shareholders and Optionholders, those Shareholders and Optionholders who hold Shares and Options as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Shares and Options, whose investments are registered in the names of nominees, to accept the Offers, it is essential that they provide instructions of their intentions with regard to the Offers to their nominees.

## **10. TAX IMPLICATIONS**

None of the Offerors, the Company, their ultimate beneficial owners and parties acting in concert with any of them, Yu Ming, INCU, Astrum, the Registrar or any of their respective directors or any persons involved in the Offers is in a position to advise the Independent Shareholders on their individual tax implications. Independent Shareholders and Independent Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. It is emphasised that none of the Offerors, the Company, their ultimate beneficial owners and parties acting in concert with any of them, Yu Ming, INCU, Astrum, the Registrar or any of their respective directors, officers or associates or any persons involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance or rejection of the Offers.

## **11. GENERAL**

- (a) All communications, notices, the Form(s) of Acceptance, share certificates, transfer receipts, certificate(s) of the Options, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Shareholders and Optionholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk. Such communications, notices, documents and remittances will be sent to Shareholders and Optionholders at their addresses, in the case of Shareholders, specified on the relevant Form of Share Offer Acceptance, and in the case of Optionholders to the company secretary of the Company in Hong Kong at Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong. None of the Offerors, the Offerors' ultimate beneficial owners, the Company and parties acting in concert with any of them, Yu Ming, INCU, the Astrum, the Registrar or any of their respective directors, officers or associates, or any other person involved in the Offers, accepts any liability for any loss in postage or delay in transmission or such other liabilities whatsoever which may arise as a result.

- (b) If no number of Shares is specified in the Form of Share Offer Acceptance or the number of Shares specified by the acceptor in the Form of Share Offer Acceptance is greater than the number of Shares registered in the name of the acceptor as holder or the number of Shares represented by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) that are forwarded by the acceptor to the Registrar, the Form of Share Offer Acceptance will be returned to the acceptor for correction. Any corrected Form of Share Offer Acceptance must be re-submitted and received by the Registrar on or before the latest time of acceptance of the Share Offer in order for it to be counted towards fulfilling the acceptance condition.
- (c) If no number of Options is specified in the Form of Option Offer Acceptance or the number of Options specified by the acceptor in the Form of Option Offer Acceptance is greater than the number of Options represented by the relevant certificate(s) of the Options and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) that are forwarded by the acceptor to the company secretary of the Company, the Form of Option Offer Acceptance will be returned to the acceptor for correction. Any corrected Form of Option Offer Acceptance must be re-submitted and received by the company secretary of the Company on or before the latest time of acceptance of the Option Offer in order for it to be counted towards fulfilling the acceptance condition.
- (d) Acceptance of:
- (i) the Share Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offerors, Yu Ming and the Company that the Shares acquired under the Share Offer are sold by such person or persons free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching thereto including, the right to receive in full all dividends and other distributions, if any, declared, paid or made on or after the date on which the Share Offer is made, being the date of despatch of this Composite Document.
  - (ii) the Option Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offerors, Yu Ming and the Company that the Options acquired under the Option Offer are sold by such person or persons free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching thereto on or after the date on which the Option Offer is made, being the date of despatch of this Composite Document.
- (e) Acceptance of the Offers by any nominee will be deemed to constitute a warranty by such nominee to the Offerors that the number of Shares and/or Options it has indicated in the Form(s) of Acceptance is the aggregate number of Shares and/or Options for which such nominee has received authorisations from the beneficial owners to accept the Offers on their behalf.

- (f) The provisions set out in the Form of Share Offer Acceptance and the Form of Option Offer Acceptance form part of the terms of the Share Offer and the Option Offer, respectively.
- (g) The accidental omission to despatch this Composite Document and/or Form(s) of Acceptance or any of them to any person to whom the Offers is made will not invalidate the Offers in any way.
- (h) The Offers are, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong. Execution of a Form of Share Offer Acceptance by or on behalf of an Independent Shareholder and Execution of a Form of Option Offer Acceptance by or on behalf of an Independent Optionholder will constitute such Independent Shareholder's or Independent Optionholder's agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the Offers.
- (i) Due execution of the Form(s) of Acceptance will constitute an irrevocable authority to the Offerors and/or the Yu Ming (or such person or persons as the Offerors and/or the Yu Ming may direct) to complete and execute any document on behalf of the person accepting the Share Offer and/or Option Offer and to do any other act that may be necessary or expedient for the purposes of vesting in either Offeror (or such person or persons as it may direct) the Shares in respect of which such person has accepted the Share Offer and/or of cancelling the Options in respect of which such person or persons has/have accepted the Option Offer.
- (j) The Offers are made in accordance with the Takeovers Code.
- (k) References to the Offers in this Composite Document and in the Forms of Acceptance shall include any extension and/or revision thereof.
- (l) In making their decision, Independent Shareholders and Independent Optionholders must rely on their own examination of the Group and the terms of the Share Offer and the Option Offer, respectively, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Forms of Acceptance, shall not be construed as any legal or business advice on the part of any of the Offerors, the Company, Yu Ming, or their respective professional advisers. Shareholders and Optionholders should consult their own professional advisers for professional advice.
- (m) The English text of this Composite Document and of the accompanying Forms of Acceptance shall prevail over the Chinese text for the purpose of interpretation.

## 1. THREE-YEAR SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited financial results of the Group for each of the three financial years ended 31 December 2013, 2014 and 2015 as extracted from the annual reports of the Company for the year ended 31 December 2013, 2014 and 2015 respectively, and the unaudited financial results of the Group for the six months ended 30 June 2016 as extracted from the interim report of the Company for the six months ended 30 June 2016.

	<b>For the six months ended 30 June 2016</b>	<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)	(audited)	(audited)
Revenue	87,355	198,088	225,549	248,741
Profit/(loss) before tax	3,725	(10,708)	13,840	32,712
Income tax expenses	(315)	(2,668)	(3,494)	(8,449)
Profit/(loss) for the period/year	3,410	(13,376)	10,346	15,991
Other comprehensive expense net of income tax:				
<i>Item that may be subsequent reclassified to profit or loss:</i>				
Exchange differences on translation of overseas operations.	(526)	(1,287)	(90)	(249)
Reclassification adjustments relating to derecognition of foreign subsidiaries during the year	–	–	–	(321)
Total comprehensive income/(expense) for the year	2,884	(14,663)	10,256	15,421
Profit/(loss) for the period/year attributable to:				
Owner of the Company	1,565	(16,090)	7,677	12,512
Non-controlling interests	1,845	2,714	2,669	3,479
Total comprehensive income/(expenses) for the period/year attributable to:				
Owners of the Company	1,100	(17,105)	7,591	11,906
Non-controlling interests	1,784	2,442	2,665	3,515
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share:				
Basic	0.48	(5.20)	2.61	4.48
Diluted	0.48	(5.20)	2.57	4.37
Dividends declared	3,269	3,184	8,947	32,213
Dividends per share ( <i>Note</i> )	1 cent	1 cent	3 cents	11 cents

*Note:*

For the year ended 31 December 2013, 2014 and 2015, total dividend of HK\$0.11, HK\$0.03 and HK\$0.01 per Share have been declared and paid respectively. For the six months ended 30 June 2016, interim dividend of HK\$0.01 per Share has been declared and not yet paid as at 30 June 2016.

The Group had no exceptional or extraordinary items which were exceptional because of its size, nature or incidence for each of the three years ended 31 December 2013, 2014 and 2015, as well as for six months ended 30 June 2016 respectively. The auditor of the Company has expressed an unqualified audit opinion on each of the financial statements of the Group for the three financial years ended 31 December 2013, 2014 and 2015.

## 2. FINANCIAL INFORMATION OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2015

Set out below is the full text of the audited consolidated financial statements of the Company for the year ended 31 December 2015 extracted from the annual report of the Company for the year ended 31 December 2015.

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2015*

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Revenue	5 & 6	198,088	225,549
Cost of sales		<u>(153,149)</u>	<u>(169,011)</u>
Gross profit		44,939	56,538
Other income, gains and losses	7	(3,842)	1,682
Distribution costs		(4,674)	(5,880)
Gain from changes in fair value of investment properties	15	400	34
Administrative expenses		(46,900)	(38,175)
Finance costs	8	<u>(631)</u>	<u>(359)</u>
(Loss) profit before tax	9	(10,708)	13,840
Income tax expenses	11	<u>(2,668)</u>	<u>(3,494)</u>
(Loss) profit for the year		<u>(13,376)</u>	<u>10,346</u>
Other comprehensive expenses, net of income tax <i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of overseas operations		<u>(1,287)</u>	<u>(90)</u>
Total comprehensive (expenses) income for the year		<u><u>(14,663)</u></u>	<u><u>10,256</u></u>
(Loss) profit for the year attributable to:			
Owners of the Company		(16,090)	7,677
Non-controlling interests		<u>2,714</u>	<u>2,669</u>
(Loss) profit for the year		<u><u>(13,376)</u></u>	<u><u>10,346</u></u>
Total comprehensive (expenses) income for the year attributable to:			
Owners of the Company		(17,105)	7,591
Non-controlling interests		<u>2,442</u>	<u>2,665</u>
Total comprehensive (expenses) income for the year		<u><u>(14,663)</u></u>	<u><u>10,256</u></u>
(Loss) earnings per share	13		
Basic		<u>(5.20) Cents</u>	<u>2.61 Cents</u>
Diluted		<u>(5.20) Cents</u>	<u>2.57 Cents</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	62,418	66,991
Investment properties	15	31,400	44,700
Deferred tax assets	25	7,137	4,640
		<u>100,955</u>	<u>116,331</u>
<b>CURRENT ASSETS</b>			
Inventories	16	17,145	19,700
Trade and other receivables	17	23,974	27,690
Tax recoverable		3,443	2,422
Held for trading investments	20	38,937	46,993
Derivative financial instruments	19	244	45
Financial assets designated as at fair value through profit or loss	24	938	–
Pledged bank deposits	21	1,119	1,895
Bank balances and cash	18	66,286	49,060
		<u>152,086</u>	<u>147,805</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	22	21,511	31,289
Derivative financial instruments	19	2,646	4,156
Tax liabilities		3,885	1,219
Bank borrowings	23	26,106	30,255
		<u>54,148</u>	<u>66,919</u>
<b>NET CURRENT ASSETS</b>		<u>97,938</u>	<u>80,886</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>198,893</u>	<u>197,217</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	25	198	319
<b>NET ASSETS</b>		<u><u>198,695</u></u>	<u><u>196,898</u></u>

		<b>2015</b>	<b>2014</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CAPITAL AND RESERVES</b>			
Share capital	26	31,834	29,867
Reserves		151,153	152,434
		<hr/>	<hr/>
Equity attributable to owners of the Company		182,987	182,301
Non-controlling interests		15,708	14,597
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>198,695</b>	<b>196,898</b>
		<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share options reserve HK\$'000	Translations reserve HK\$'000	Retained profits HK\$'000	Equity attributable to equity holders of the Company HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2014	29,012	86,465	10,337	4,889	1,350	68,856	200,909	13,720	214,629
Profit for the year	-	-	-	-	-	7,677	7,677	2,669	10,346
Other comprehensive expenses for the year									
Exchange differences on translation of overseas operations	-	-	-	-	(86)	-	(86)	(4)	(90)
Total comprehensive (expenses) income for the year	-	-	-	-	(86)	7,677	7,591	2,665	10,256
Share options lapsed	-	-	-	(126)	-	126	-	-	-
Shares issued upon exercise of options	855	6,490	-	(1,274)	-	-	6,071	-	6,071
Dividends (Note 12)	-	-	-	-	-	(32,270)	(32,270)	(1,788)	(34,058)
At 31 December 2014	<u>29,867</u>	<u>92,955</u>	<u>10,337</u>	<u>3,489</u>	<u>1,264</u>	<u>44,389</u>	<u>182,301</u>	<u>14,597</u>	<u>196,898</u>
At 1 January 2015	29,867	92,955	10,337	3,489	1,264	44,389	182,301	14,597	196,898
(Loss) profit for the year	-	-	-	-	-	(16,090)	(16,090)	2,714	(13,376)
Other comprehensive expenses for the year									
Exchange differences on translation of overseas operations	-	-	-	-	(1,015)	-	(1,015)	(272)	(1,287)
Total comprehensive (expenses) income for the year	-	-	-	-	(1,015)	(16,090)	(17,105)	2,442	(14,663)
Share options granted	-	-	-	10,909	-	-	10,909	-	10,909
Share options lapsed	-	-	-	(599)	-	599	-	-	-
Shares issued upon exercise of options	1,967	18,267	-	(4,179)	-	-	16,055	-	16,055
Dividends (Note 12)	-	-	-	-	-	(9,173)	(9,173)	(1,331)	(10,504)
At 31 December 2015	<u>31,834</u>	<u>111,222</u>	<u>10,337</u>	<u>9,620</u>	<u>249</u>	<u>19,725</u>	<u>182,987</u>	<u>15,708</u>	<u>198,695</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS***For the year ended 31 December 2015*

	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
(Loss) profit before tax	(10,708)	13,840
Adjustments for:		
Bad debt recovered	335	–
Bond interest income	–	(304)
Interest expenses	631	359
Interest income	(99)	(84)
Depreciation of property, plant and equipment	7,817	8,187
Dividend income from held for trading investments	(1,558)	(1,681)
Share-based payment expenses	10,909	–
Gain on disposal of property, plant and equipment	(2,715)	(419)
Gain on disposal of an investment property	(800)	–
Loss (gain) on disposal of held for trading investments	937	(2,451)
(Gain) loss on redemption of financial assets designated as at fair value through profit or loss	(41)	47
Gain from changes in fair value of investment properties	(400)	(34)
(Gain) loss from changes in fair value of derivative financial instruments	(1,709)	3,341
Loss from changes in fair value of held for trading investments	13,298	2,764
Loss from changes in fair value of financial assets designated as at fair value through profit or loss	44	–
	<hr/>	<hr/>
Operating cash flows before movements in working capital	15,941	23,565
Decrease in trade and other receivables	3,381	5,296
Decrease in inventories	2,555	6,827
Decrease in deferred rental income	–	10
Decrease in trade and other payables	(9,778)	(4,628)
Decrease in amounts due from a related company	–	62
	<hr/>	<hr/>
Cash generated from operations	12,099	31,132
Hong Kong Profits Tax paid, net	(3,338)	(11,524)
PRC Enterprise Income Tax paid, net	(287)	(189)
	<hr/>	<hr/>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>8,474</b>	<b>19,419</b>

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
INVESTING ACTIVITIES		
Decrease in pledged bank deposits	776	4,851
Dividends received from held for trading investments	1,558	1,681
Interest received	99	84
Bond interest received	–	304
Purchase of financial assets designated as at fair value through profit or loss	(2,941)	–
Purchase of held for trading investments	(39,134)	(37,076)
Purchase of property, plant and equipment	(5,814)	(11,398)
Purchase of an investment property	–	(33,266)
Proceeds on redemption of financial assets designated as at fair value through profit or loss	2,000	1,252
Proceeds on disposal of held for trading investments	32,955	36,445
Proceeds on disposal of property, plant and equipment	3,934	457
Proceeds on disposal of an investment property	14,500	–
	<u>7,933</u>	<u>(36,666)</u>
NET CASH FROM (USED IN) INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
Dividends paid to owners of the Company	(9,173)	(32,270)
Dividends paid to non-controlling interests	(1,331)	(1,788)
Interest paid	(631)	(359)
New bank borrowings and trust receipt loans raised	–	43,933
Proceeds received upon share option exercised	16,055	6,071
Repayment of bank borrowings and trust receipt loans	(4,149)	(35,596)
	<u>771</u>	<u>(20,009)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	17,178	(37,256)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		
	49,060	86,406
Effect of changes in foreign exchange rates		
	48	(90)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		
	<u>66,286</u>	<u>49,060</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<u>66,286</u>	<u>49,060</u>

**NOTES TO THE FINANCIAL STATEMENTS***For the year ended 31 December 2015***1. GENERAL INFORMATION**

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office is Cannon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business is Units C&D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong.

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, which is the same as the functional currency of the Company.

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)****New and revised HKFRSs applied with no material effects on the financial statements**

The accounting policies and methods of computation used in these financial statements are the same as those followed in the preparation of the Group’s financial statements for the year ended 31 December 2014, except for the following amendments to HKFRSs that the Group has applied for the first time in the current year. The application of these new and revised HKFRSs has had no material impact on the Group’s financial performance and positions for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle

**New Hong Kong Companies Ordinance (Cap. 622)**

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

**New and revised HKFRSs in issue but not yet effective**

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective in the consolidated financial statements:

HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>1</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>1</sup>
Amendments to HKAS 27	Equity method in separate financial statements <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>1</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 cycle <sup>1</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted
- <sup>3</sup> The original effective date has been deferred to a date yet to be determined

#### *HKFRS 9 Financial Instruments*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

*HKFRS 15 Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

*Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations*

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and HKAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in HKFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to HKFRS 11 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

*Amendments to HKAS 1 Disclosure Initiative*

The amendments to HKAS 1 Presentation of Financial Statements give some guidance on how to apply the concept of materiality in practice.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKAS 1 will have a material impact on the amounts recognised in the Group's consolidated financial statements.

*Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to HKAS 16 Property, Plant and Equipment prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 Intangible Assets introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a. when the intangible asset is expressed as a measure of revenue; or
- b. when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

*Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants*

The amendments to HKAS 16 Property, Plant and Equipment and HKAS 41 Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

*Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to HKFRS 10 and HKAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

*Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments to HKFRS 10 Consolidated Financial Statements, HKFRS 12 Disclosure of Interests in Other Entities and HKAS 28 Investments in Associates and Joint Ventures clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment equity parent, applies only to subsidiaries that are not investment entities themselves.

The directors of the Company do not anticipate that the application of those amendments to HKFRS 10, HKFRS 12 and HKAS 28 will have a material impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any subsidiary, associate or joint venture that qualifies as an investment entity.

*Annual Improvements to HKFRSs 2012-2014 Cycle*

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to HKAS 19 clarify the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by 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 (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The provisions of the new CO (Cap 622) regarding preparation of accounts and directors’ reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

#### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

*Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### **Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

### **Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

*Sale of goods*

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

*Dividend and interest income*

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

**Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating lease, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

*Leasehold land for own use*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2015 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **Retirement benefit costs**

Payments to defined contribution retirement benefit plans/the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from '(Loss) profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

*Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

*Current and deferred tax for the year*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (“FVTPL”), held-to-maturity investments, available-for-sale (“AFS”) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

***Financial assets at FVTPL***

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the 'other income, gains and losses' line item. Fair value is determined in the manner described in note 35.

#### *Loans and receivables*

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loan and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see the accounting policy in respect of impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

#### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### *Financial liabilities and equity instruments*

##### *Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### *Equity instrument*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

##### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of an identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 35.

#### *Other financial liabilities*

Other financial liabilities including bank borrowings, trade and other payables are subsequently measured at amortised cost using the effective interest method.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

#### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognised its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amounts recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### **Share-based payment arrangements**

#### *Share-based payment transactions of the Company*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 32 to the Group's consolidation financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

When the share-based payment awards held by the employees of an acquiree (acquiree awards) are replaced by the Group's share-based payment awards (replacement awards), both the acquiree awards and the replacement awards are measured in accordance with HKFRS 2 Share-based Payment ('market-based measure') at the acquisition date. The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognised as remuneration cost for post-combination service.

However, when the acquiree awards expire as a consequence of a business combination and the Group replaces those awards when it does not have an obligation to do so, the replacement awards are measured at their market-based measure in accordance with HKFRS 2. All of the market-based measure of the replacement awards is recognised as remuneration cost for post-combination service.

*Share-based payment transactions of the acquiree in a business combination*

At the acquisition date, when the outstanding equity-settled share-based payment transactions held by the employees of an acquiree are not exchanged by the Group for its share-based payment transactions, the acquiree share-based payment transactions are measured at their market-based measure at the acquisition date. If the share-based payment transactions have vested by the acquisition date, they are included as part of the non-controlling interest in the acquiree. However, if the share-based payment transactions have not vested by the acquisition date, the market-based measure of the unvested share-based payment transactions is allocated to the non-controlling interest in the acquiree based on the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the share-based payment transaction. The balance is recognised as remuneration cost for post-combination service.

**Related parties**

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group and the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) the entities and the Group are the member of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) both entities are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); or
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Group.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

##### **Critical judgements in applying accounting policies**

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

##### **Deferred taxation on investment properties**

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties 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, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors 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. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

##### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### *Depreciation*

The Group's net book value of property, plant and equipment as at 31 December 2015 was approximately HK\$62,418,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 3% to 30% per annum, commencing from the date the assets is placed into productive use. The estimated useful life that the Group places the assets into productive use reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

##### *Impairment on trade receivables*

The policy for impairment on trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts based on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group had deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required.

*Recoverability of Deferred Tax Assets*

As at 31 December 2015, a deferred tax asset of HK\$6,939,000 in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. The recoverability of deferred tax assets requires the Group to estimate the probability of taxable profits expected to arise from future operations. At the end of each reporting period, management evaluates the recoverability of deferred tax assets by way of profit forecast when necessary.

*Impairment on inventories*

The management of the Group reviews an aging analysis at each reporting period, and identifies obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and provides impairment on obsolete items.

**5. REVENUE**

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

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Novelties and decoration products	36,154	57,077
Toy products	161,934	168,472
	<u>198,088</u>	<u>225,549</u>

## 6. 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 segment:

## 2015

	<b>Novelties and decoration products</b> <i>HK\$'000</i>	<b>Toy products</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>REVENUE</b>			
External sales	36,154	161,934	198,088
Inter-segment sales	–	–	–
Total revenue	<u>36,154</u>	<u>161,934</u>	<u>198,088</u>
<b>RESULT</b>			
Segment result	<u>(5,099)</u>	<u>19,475</u>	14,376
Loss from investments			(10,957)
Gain from changes in fair value of an investment property			400
Unallocated corporate expenses			(13,896)
Finance costs			<u>(631)</u>
Loss before tax			(10,708)
Income tax expenses			<u>(2,668)</u>
Loss for the year			<u>(13,376)</u>
<b>ASSETS</b>			
Segment assets	30,549	92,646	123,195
Unallocated corporate assets			<u>129,846</u>
Consolidated total assets			<u>253,041</u>
<b>LIABILITIES</b>			
Segment liabilities	12,549	20,353	32,902
Unallocated corporate liabilities			<u>21,444</u>
Consolidated total liabilities			<u>54,346</u>

	Novelties and decoration products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Additions of property, plant and equipment	120	4,436	1,258	5,814
Depreciation and amortisation	1,220	4,942	1,655	7,817
Interest income	35	17	47	99
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**2014**

	Novelties and decoration products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>			
External sales	57,077	168,472	225,549
Inter-segment sales	–	–	–
	<u>          </u>	<u>          </u>	<u>          </u>
Total revenue	<u>57,077</u>	<u>168,472</u>	<u>225,549</u>
<b>RESULT</b>			
Segment result	<u>(5,387)</u>	<u>22,113</u>	16,726
Loss from investments			(1,700)
Gain from changes in fair value of investment properties			34
Unallocated corporate expenses			(861)
Finance costs			(359)
			<u>          </u>
Profit before tax			13,840
Income tax expenses			(3,494)
			<u>          </u>
Profit for the year			<u>10,346</u>

	Novelties and decoration products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	39,399	83,598	122,997
Unallocated corporate assets			141,139
Consolidated total assets			<u>264,136</u>
<b>LIABILITIES</b>			
Segment liabilities	19,268	21,703	40,971
Unallocated corporate liabilities			26,267
Consolidated total liabilities			<u>67,238</u>

	Novelties and decoration products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Additions of property, plant and equipment	503	10,895	–	11,398
Depreciation and amortisation	1,430	5,207	1,550	8,187
Interest income	16	15	53	84
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' salaries, investment and 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 held for trading investments, other financial assets, investment property, land and building held for own use and deferred tax assets. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segment; and
- all liabilities are allocated to operating segments other than deferred tax liabilities, other financial liabilities and borrowings. 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:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Sales revenue by geographical market:		
Hong Kong	10,567	15,929
Europe	40,602	53,410
America	68,775	57,112
Asia (other than Hong Kong)	76,819	95,544
Others	1,325	3,554
	<u>198,088</u>	<u>225,549</u>

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:

	<b>Carrying amount of segment assets</b>		<b>Additions to property, plant and equipment</b>	
	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Hong Kong	176,073	185,029	1,299	1,033
The People's Republic of China (the "PRC")	<u>76,968</u>	<u>79,107</u>	<u>4,515</u>	<u>10,365</u>
	<u>253,041</u>	<u>264,136</u>	<u>5,814</u>	<u>11,398</u>

**Information about major customer**

Included in revenue arising from sales of toy products of approximately HK\$161,934,000 (2014: HK\$168,472,000) are revenue of approximately HK\$154,036,000 (2014: HK\$160,632,000) which arose from sales to the Group's largest customer, representing 78% (2014: 71%) of the total revenue.

## 7. OTHER INCOME, GAINS AND LOSSES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Included in other income, gains and losses are:		
Bad debt recovered	335	–
Bond interest income	–	304
Dividend income from held for trading investments	1,558	1,681
Interest income	99	84
Rental income	299	131
Scrap sales	1,766	1,441
Gain on disposal of property, plant and equipment	2,715	419
Gain on disposal of an investment property	800	–
Gain (loss) on redemption of financial assets designated as at fair value through profit or loss	41	(47)
Loss from changes in fair value of held for trading investments	(13,298)	(2,764)
Gain (loss) from changes in fair value of derivative financial instruments	1,709	(3,341)
Loss from changes in fair value of financial assets designated as at fair value through profit or loss	(44)	–
(Loss) gain on disposal of held for trading investments	(937)	2,451
Others	1,115	1,323
	<u>(3,842)</u>	<u>1,682</u>

## 8. FINANCE COSTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	631	119
Bank borrowings not wholly repayable within five years	–	240
	<u>631</u>	<u>359</u>

## 9. (LOSS) PROFIT BEFORE TAX

	2015 HK\$'000	2014 HK\$'000
(Loss) profit before tax has been arrived at after charging (crediting):		
Auditor's remuneration	1,010	1,000
Bad debt recovered	(335)	–
Cost of inventories recognised as an expense	54,101	60,776
Depreciation of property, plant and equipment	7,817	8,187
Net foreign exchange losses	163	2,855
Operating lease rentals in respect of rented premises	5,860	6,161
Gross rental income from investment properties	(299)	(131)
Less:		
Direct operating expenses incurred for investment properties that generated rental income during the year	44	25
Direct operating expenses incurred for investment properties that did not generate rental income during the year	12	8
	(243)	(98)
Share-based payment expenses	10,909	–
Staff costs (including Directors' emoluments)	85,358	88,339
	<u>85,358</u>	<u>88,339</u>

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## (a) Directors' emoluments

The emoluments paid or payable to each of the seven Directors in 2015 were as follows:

Emoluments	Fees HK\$'000	Other emoluments			Total HK\$'000
		Salaries and other benefits HK\$'000	Share- based payments HK\$'000	Retirement benefit scheme contributions HK\$'000	
Poon Siu Chung	–	1,630	712	48	2,390
Tsui Yan Lee, Benjamin	–	426	–	3	429
Poon Wai Tsun, William	–	862	712	18	1,592
Poon Wai Yip, Albert	–	828	712	18	1,558
Choy Wing Keung, David	50	–	232	–	282
Lam Yat Cheong	50	–	232	–	282
Yip Chi Hung	50	–	232	–	282
Total for 2015	<u>150</u>	<u>3,746</u>	<u>2,832</u>	<u>87</u>	<u>6,815</u>

The emoluments paid or payable to each of the seven Directors in 2014 were as follows:

Emoluments	Fees <i>HK\$'000</i>	Other emoluments		Total <i>HK\$'000</i>
		Salaries and other benefits <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	
Poon Siu Chung	–	1,750	46	1,796
Tsui Yan Lee, Benjamin	–	1,010	30	1,040
Poon Wai Tsun, William	–	844	17	861
Poon Wai Yip, Albert	–	820	17	837
Choy Wing Keung, David	50	–	–	50
Lam Yat Cheong	50	–	–	50
Yip Chi Hung	50	–	–	50
Total for 2014	150	4,424	110	4,684

(b) **Employees' emoluments**

Of the five individuals with the highest emoluments of the Group, three (2014: three) were Directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2014: two) individuals were as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Salaries and other benefits	1,891	2,095
Retirement benefit schemes contributions	35	34
	1,926	2,129

Their emoluments were within the following bands:

	2015 Number of employees	2014 Number of employees
Nil – HK\$1,000,000	1	1
HK\$1,000,001- HK\$1,500,000	1	1
	2	2

## 11. INCOME TAX EXPENSES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	3,056	4,235
PRC Enterprise Income Tax	312	163
	<u>3,368</u>	<u>4,398</u>
Under (over) provision in prior years:		
Hong Kong Profits Tax	1,867	(440)
PRC Enterprise Income Tax	50	85
	<u>1,917</u>	<u>(355)</u>
Deferred tax ( <i>note 25</i> )		
Current year	(2,617)	(549)
Total income tax expenses recognised in profit or loss	<u><u>2,668</u></u>	<u><u>3,494</u></u>

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 for the year can be reconciled to the (loss) profit before tax as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
(Loss) profit before tax	<u><u>(10,708)</u></u>	<u><u>13,840</u></u>
Tax at Hong Kong Profits Tax rate of 16.5%	(1,767)	2,284
Tax effect of income not taxable for tax purposes	(2,332)	(1,614)
Tax effect of expenses not deductible for tax purposes	2,569	2,658
Tax effect of temporary differences not recognised	183	41
Tax effect of tax losses not recognised	1,941	577
Utilisation of tax losses not previously recognised	(164)	(17)
Under (over) provision in respect of prior years	1,917	(355)
Effect of different tax rates of subsidiaries operating in the PRC	321	(80)
Tax charge for the year	<u><u>2,668</u></u>	<u><u>3,494</u></u>

## 12. DIVIDENDS

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Interim, paid – 1.0 HK cent (2014: 1.0 HK cent) per share	3,184	2,958
Final paid – 2.0 HK cents per share for 2014 (2014: 10.0 HK cents per share for 2013)	<u>5,989</u>	<u>29,312</u>
	<u><u>9,173</u></u>	<u><u>32,270</u></u>

The Board does not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: 2.0 HK cents per share).

## 13. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to owners of the Company is based on the net loss for the year of approximately HK\$16,090,000 (2014: profit of HK\$7,677,000) and the following data:

	<b>2015</b>	<b>2014</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	309,176,440	294,479,716
Effect of dilutive potential ordinary shares on share options	<u>5,634,887</u>	<u>4,817,298</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u><u>314,811,327</u></u>	<u><u>299,297,014</u></u>

Diluted loss per share for the year ended 31 December 2015 is the same as basic loss per share because the share options outstanding had an anti-dilutive effect in the calculation of diluted loss per share.

## 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Factory premises HK\$'000	Furniture, fixtures and office equipment HK\$'000	Plant, machinery and moulds HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>						
At 1 January 2014	31,660	38,345	34,246	164,976	5,100	274,327
Additions	976	-	1,725	8,163	534	11,398
Disposals	-	-	(9,037)	(50,656)	(1,470)	(61,163)
Exchange adjustments	-	-	-	-	-	-
At 31 December 2014 and 1 January 2015	32,636	38,345	26,934	122,483	4,164	224,562
Additions	-	685	1,482	3,447	200	5,814
Disposals	-	(7,606)	(2,239)	(6,547)	(420)	(16,812)
Exchange adjustments	-	(33)	(93)	(1,651)	(78)	(1,855)
At 31 December 2015	32,636	31,391	26,084	117,732	3,866	211,709
<b>DEPRECIATION AND AMORTISATION</b>						
At 1 January 2014	475	35,508	28,431	142,248	3,847	210,509
Provided for the year	1,145	1,051	1,099	4,539	353	8,187
Eliminated on disposals	-	-	(9,031)	(50,661)	(1,433)	(61,125)
Exchange adjustments	-	-	-	-	-	-
At 31 December 2014 and 1 January 2015	1,620	36,559	20,499	96,126	2,767	157,571
Provided for the year	1,145	878	1,273	4,124	397	7,817
Eliminated on disposals	-	(6,546)	(2,217)	(6,428)	(402)	(15,593)
Exchange adjustments	-	(3)	(52)	(429)	(20)	(504)
At 31 December 2015	2,765	30,888	19,503	93,393	2,742	149,291
<b>CARRYING VALUES</b>						
At 31 December 2015	<u>29,871</u>	<u>503</u>	<u>6,581</u>	<u>24,339</u>	<u>1,124</u>	<u>62,418</u>
At 31 December 2014	<u>31,016</u>	<u>1,786</u>	<u>6,435</u>	<u>26,357</u>	<u>1,397</u>	<u>66,991</u>

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	3-5%
Factory premises	5-20%
Furniture, fixtures and office equipment	15-20%
Plant, machinery and moulds	10-20%
Motor vehicles	25-30%

The Group has not obtained Certificate for Housing Ownership in respect of the Group's factory premises with carrying value of approximately HK\$503,000 (2014: HK\$1,786,000) at 31 December 2015.

## 15. INVESTMENT PROPERTIES

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
At fair value		
Balance at the beginning of the year	44,700	11,400
Addition	–	33,266
Disposal	(13,700)	–
Gain from changes in fair value of investment properties	400	34
	<u>31,400</u>	<u>44,700</u>
Balance at the end of the year	<u>31,400</u>	<u>44,700</u>

The Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment property.

The fair value of the Group's investment property at 31 December 2015 have been arrived at on the basis of a valuation carried out at that date by Peak Vision Appraisals Limited, independent qualified professional valuers not connected to the Group. Peak Vision Appraisals Limited is a member of the Hong Kong Institute of Valuers, and has appropriate qualifications and recent experience in the valuation of properties in relevant locations.

The fair value was determined based on Investment Approach and Direct Comparison Approach assuming sale of the property interest in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. In estimating the fair value of the property, the highest and best use of the property is its current use.

There has been no change from the valuation technique used in the prior year.

One of the key inputs used in valuing the investment property was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which range from approximately HK\$7,900 to HK\$11,200 per square foot. A decrease in the unit sale rate would result in decrease in fair value of the investment property by the same percentage and vice versa.

Details of the Group's investment property and information about the fair value hierarchy as at 31 December 2015 are as follows:

	<b>Level 1</b> <i>HK\$'000</i>	<b>Level 2</b> <i>HK\$'000</i>	<b>Level 3</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Commercial property unit located in Hong Kong	<u>–</u>	<u>–</u>	<u>31,400</u>	<u>31,400</u>

There were no transfers into or out of Level 3 during the year.

The carrying amounts of investment property shown above comprise:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Land in Hong Kong: Medium-term lease	<u>31,400</u>	<u>44,700</u>

## 16. INVENTORIES

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Raw materials	7,930	9,586
Work in progress	2,588	2,057
Finished goods	6,627	8,057
	<u>17,145</u>	<u>19,700</u>

## 17. TRADE AND OTHER RECEIVABLES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade receivables	20,789	28,706
Less: allowance for doubtful debts	(6,809)	(7,144)
	<u>13,980</u>	<u>21,562</u>
Other receivables		
Prepayment	780	498
Rental, utility and other deposit	1,108	986
Cash deposit in broker's account	6,423	875
Sundry debtors and others (Note a)	1,683	3,769
	<u>9,994</u>	<u>6,128</u>
	<u>23,974</u>	<u>27,690</u>

*Note a:* Included in sundry debtors and others were mainly export tax rebates receivables and receivables of Social Security Insurance paid on behalf of employees in mainland China.

The Group allows an average credit period of 60 days to its trade customers.

The following is an aging analysis of the Group's trade receivables, presented based on the invoice date and net of allowance for doubtful debts at the end of the reporting period:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0 – 60 days	13,891	18,786
61 – 90 days	61	2,068
91 – 120 days	–	444
Over 120 days	28	264
	<u>13,980</u>	<u>21,562</u>

Trade receivables disclosed above include amounts which are past due at the end of reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The following is an aging analysis of the Group's trade receivables that are past due but not impaired at the end of the reporting period:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Overdue by:		
0 – 60 days	2,183	4,489
61 – 90 days	–	2,068
91 – 120 days	28	707
Over 120 days	–	1
	<u>2,211</u>	<u>7,265</u>

The following is the movement in the allowance for doubtful debts:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
At 1 January	7,144	7,144
Amounts recovered during the year	(335)	–
	<u>6,809</u>	<u>7,144</u>
At 31 December	<u>6,809</u>	<u>7,144</u>

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. The fair value of the Group's trade and other receivables at 31 December 2015 approximate to the corresponding carrying amount.

The following is an aging analysis of the Group's impaired trade receivables:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Overdue by:		
0 – 60 days	–	–
61 – 90 days	–	–
91 – 120 days	–	–
Over 120 days	6,809	7,144
	<u>6,809</u>	<u>7,144</u>

#### 18. BANK BALANCES AND CASH

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 0.001% to 0.01% p.a. (2014: 0.001% to 0.01% p.a.) with an original maturity of three months or less. The fair value of these assets at 31 December 2015 approximates to the corresponding carrying amounts.

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Financial assets		
Equity accumulators	85	–
Equity decumulators	159	45
	<u>244</u>	<u>45</u>
Financial liabilities		
Equity accumulators	(2,646)	(2,192)
Equity decumulators	–	(1,964)
	<u>(2,646)</u>	<u>(4,156)</u>
	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Financial assets		
Balance at the beginning of the year	45	175
Gain (loss) from changes in fair value of derivative financial instruments	199	(130)
Balance at the end of the year	<u>244</u>	<u>45</u>
Financial liabilities		
Balance at the beginning of the year	(4,156)	(945)
Gain (loss) from changes in fair value of derivative financial instruments	1,510	(3,211)
Balance at the end of the year	<u>(2,646)</u>	<u>(4,156)</u>

The derivatives are measured at fair value at each reporting date. Fair value is determined in the manner as described in note 35.

At 31 December 2015, the major terms of the listed equity accumulators/decumulators contracts are as follows:

Nominal amount	Underlying Securities	Nature	Maturity	prices
HK\$4,676,090	China Construction Bank Limited	Accumulator	14 April 2016	HK\$6.37
HK\$4,679,939	Agricultural Bank of China Limited	Accumulator	14 April 2016	HK\$3.57
HK\$6,041,022	Agricultural Bank of China Limited	Accumulator	14 April 2016	HK\$3.58
HK\$4,620,736	CNOOC Limited	Accumulator	21 April 2016	HK\$10.96
HK\$5,919,343	PetroChina Company Limited	Accumulator	29 April 2016	HK\$8.52
HK\$4,699,825	China Life Insurance Company Limited	Accumulator	30 May 2016	HK\$32.10
HK\$4,745,827	China Life Insurance Company Limited	Accumulator	7 July 2016	HK\$25.86
HK\$6,126,537	Hong Kong Exchanges and Clearing Limited	Accumulator	21 July 2016	HK\$190.80
HK\$4,651,425	Hong Kong Exchanges and Clearing Limited	Accumulator	17 August 2016	HK\$168.14
HK\$5,705,407	Hong Kong Exchanges and Clearing Limited	Decumulator	22 December 2016	HK\$229.13
HK\$6,136,834	Agricultural Bank of China Limited	Decumulator	22 December 2016	HK\$3.62
HK\$5,590,847	CNOOC Limited	Decumulator	23 December 2016	HK\$9.72

The analysis of the net cash flow derived from decumulator contracts and accumulator contracts is presented in the section headed "Liquidity risk management" of note 35 to the consolidated financial statements.

Commitments arising from derivative financial instruments as at 31 December 2015 are disclosed in note 30.

## 20. HELD FOR TRADING INVESTMENTS

	2015 HK\$'000	2014 HK\$'000
Equity securities listed in Hong Kong	38,937	43,863
Debt securities listed overseas	—	3,130
	<u>38,937</u>	<u>46,993</u>

The movement of held for trading investments during the year:

	2015 HK\$'000	2014 HK\$'000
Balance at the beginning of the year	46,993	46,675
Additions	39,134	37,076
Disposals	(33,892)	(33,994)
Loss from changes in fair value of held for trading investments	(13,298)	(2,764)
Balance at the end of the year	<u>38,937</u>	<u>46,993</u>

The fair values of the held for trading investments are determined based on the market closing prices available on the relevant exchanges at 31 December 2015.

**21. PLEDGED BANK DEPOSITS**

The amount represents deposits pledged to banks to secure margin loan facilities granted to the Group and are therefore classified as current assets.

The deposits carry variable interest rate ranging from 0.001% to 0.91% p.a. (2014: 0.001% to 0.91% p.a.). The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31 December 2015 approximates to the corresponding carrying amount.

**22. TRADE AND OTHER PAYABLES**

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

	2015 HK\$'000	2014 HK\$'000
Trade payables		
0 – 60 days	6,723	6,700
61 – 90 days	1,064	3,251
91 – 120 days	94	1,153
Over 120 days	588	691
	<u>8,469</u>	<u>11,795</u>
Other payables		
Accrued salary, bonus and commission	5,633	6,910
Deposits received from customers	3,623	5,214
Amount due on share trading account	563	4,225
Accrued expenses and others	3,223	3,145
	<u>13,042</u>	<u>19,494</u>
	<u>21,511</u>	<u>31,289</u>

The average credit period on purchases of certain goods is 45 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame. The fair value of the Group's trade and other payables at 31 December 2015 approximate to the corresponding carrying amount.

**23. BANK BORROWINGS**

	2015 HK\$'000	2014 HK\$'000
Secured bank loans ( <i>Note 1</i> )	26,106	29,055
Unsecured bank loans classified as current liabilities ( <i>Note 2</i> )	–	1,200
	<u>26,106</u>	<u>30,255</u>

*Notes:*

- (1) Secured by the Group's leasehold land and buildings and investment properties bearing interest from HIBOR +1.75% to HIBOR +2.25% p.a. (2014: HIBOR +1.75% to HIBOR +2.25% p.a.). The weighted average effective interest rate on the secured bank loans is from 1.99% to 2.49% p.a. (2014: 1.96% to 2.46% p.a.).
- (2) No unsecured bank loans were secured by corporate cross guarantee given by the Group at the year end (2014: HK\$1,200,000). The unsecured bank loans outstanding during the year carried variable interest rates ranging from 1.73% to 1.74% p.a. (2014: 1.71% to 2.46% p.a.).

The carrying amounts repayable extracted from agreed repayment schedules from financial institutions are as follows:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
On demand or within one year	12,519	13,649
More than one year, but not exceeding two years ( <i>Note</i> )	6,257	3,018
More than two year, but not exceeding five years ( <i>Note</i> )	7,330	9,498
More than five years ( <i>Note</i> )	–	4,090
	<u>26,106</u>	<u>30,255</u>

During the year, the Group obtained no new loan (2014: HK\$10,600,000 to finance an acquisition of property).

*Note:* These bank loans that are not repayable within one year from the end of the reporting period but as these term loans include a clause that gives the lender the unconditional right to call the loans at any time, and according to HK Int 5 which requires the classification of the whole term loans containing the repayment on demand clause as current liabilities, all the term loans were classified by the Group as current liabilities.

#### 24. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated as at fair value through profit or loss represent equity-linked notes (ELNs). During the year, the Group entered into several ELNs with financial institutions in Hong Kong. Equity-linked notes with carrying values ranging from HK\$976,000 to HK\$983,000 have maturity periods of one month. Aggregate redemption amount was HK\$1,000,000, and interest rates vary depending on various conditions and terms and different strike prices. The ELNs are designated as at fair value through profit or loss at initial recognition.

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Carrying amount at the end of the year	<u>938</u>	<u>–</u>
	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Cost	982	–
Loss from changes in fair value of ELNs	<u>(44)</u>	<u>–</u>
	<u>938</u>	<u>–</u>

The notes were measured at fair value at the reporting date. Fair value is determined in the manner as described in note 35.

## 25. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Tax losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2014	(462)	(3,311)	(3,773)
Charge (credit) to income for the year	87	(636)	(549)
At 31 December 2014 and 1 January 2015	(375)	(3,947)	(4,322)
Credit to income for the year	(88)	(2,529)	(2,617)
At 31 December 2015	<u>(463)</u>	<u>(6,476)</u>	<u>(6,939)</u>

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

With regard to the Group's investment properties, as none of the Group's investment properties is held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, the Group has not recognised any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Deferred tax liabilities	198	319
Deferred tax assets	(7,137)	(4,640)
	<u>(6,939)</u>	<u>(4,321)</u>

At the end of reporting period, the Group has unused tax losses of approximately HK\$138,935,000 (2014: HK\$113,147,000) available for offset against future profits that may be carried forward indefinitely. A deferred tax asset has been recognised in respect of approximately HK\$39,245,000 (2014: HK\$23,912,000) of such losses. No deferred tax has been recognised in respect of the remaining HK\$99,690,000 (2014: HK\$89,235,000) due to the unpredictability of future profit streams.

## 26. SHARE CAPITAL

	Authorised		Issued and fully paid	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
700,000,000 Ordinary shares of HK\$0.10 each				
Balance at the beginning of the year	70,000	70,000	29,867	29,012
Exercise of share options	–	–	1,967	855
Balance at the end of the year	<u>70,000</u>	<u>70,000</u>	<u>31,834</u>	<u>29,867</u>

## 27. PLEDGE OF ASSETS

The following assets have been pledged to secure the margin loan facilities granted to the Group:

- (i) Held for trading investments with an aggregate carrying value of approximately HK\$38,362,000 (2014: HK\$46,993,000); and
- (ii) Bank deposits of approximately HK\$1,119,000 (2014: HK\$1,895,000).

At 31 December 2015, the Group had not utilised any margin loan facilities from bank (2014: HK\$Nil).

In addition, the Group has also pledged the following assets to secure bank loans granted to the Group:

- (i) Leasehold land and buildings with carrying amount of approximately HK\$29,871,000 (2014: HK\$31,016,000); and
- (ii) Investment properties with carrying amount of approximately HK\$31,400,000 (2014: HK\$44,700,000).

## 28. OPERATING LEASES

**The Group as lessee**

	2015 HK\$'000	2014 HK\$'000
Lease payments made under operating leases during the year		
Rented premises	<u>5,749</u>	<u>5,780</u>

At 31 December 2015, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	4,387	5,215
In the second to fifth years inclusive	6,211	7,439
Over five years	–	34,508
	<u>10,598</u>	<u>47,162</u>

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises, with lease terms of between 1 to 29 years.

**The Group as lessor**

Property rental income earned during the year was HK\$299,000 (2014: HK\$131,000). The investment property is held for rental purposes. It is expected to generate rental yields of 0.95% p.a. (2014: 1.6% p.a.) on an ongoing basis. The property held has committed tenants for the next 2 years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Within one year	577	–
In the second to fifth years inclusive	279	–
	<u>856</u>	<u>–</u>

**29. CAPITAL COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Capital commitments in respect of the acquisition of property, plant and equipment		
Contracted but not provided for	477	1,663
Authorised but not contracted for	–	–
	<u>477</u>	<u>1,663</u>

**30. OTHER COMMITMENTS**

At 31 December 2015, the Group carried outstanding forward contracts which entailed a total commitment for sale and purchase of equity shares in an aggregate amount of approximately HK\$17,433,000 and HK\$19,625,000 respectively (2014: HK\$24,626,000 and HK\$20,493,000) as disclosed in notes 19 and 35.

**31. CONTINGENT LIABILITIES****(a) Contingent liability in respect of legal claim**

A subsidiary of the Group (the “Subsidiary”) has served a writ and claimed against three former employees of the Subsidiary (the “Defendants”). The claim related to the misconduct of the Defendants during their employment with the Subsidiary. The Defendants had filed a defence and counterclaim against the Subsidiary for wages and other payments allegedly payable upon their termination of employment with the Subsidiary amounting to approximately HK\$419,000 together with interest and costs. The Directors of the Company take the views that the amount of the Subsidiary’s claims against the Defendants well exceeded the Defendants’ claims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

**(b) Financial guarantees issued**

At the end of reporting period, the Company has issued the following guarantees:

- (i) *A corporate guarantee to banks in respect of banking facilities granted to its subsidiaries.*

The Company is also one of the entities covered by a cross guarantee arrangement issued by the Company and its Subsidiaries to banks in respect of banking facilities granted to the Group which remains in force so long as the Group has drawn down under the banking facilities. Under the guarantee, the Company and all the Subsidiaries that are parties to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

- (ii) *An unlimited guarantee granted to a subsidiary in relation to a mortgage loan (see note 23)*

As at 31 December 2015, the Directors did not consider it probable that a claim could be made against the Company under the guarantee as the probability of default payment for the loan drawn down by the subsidiaries is remote.

The Company had not recognised any deferred income in respect of the corporate guarantee as its fair value cannot be reliably measured and its transaction price was HK\$Nil.

**32. SHARE-BASED PAYMENT TRANSACTIONS**

A share option scheme (the "Old Scheme") was adopted in the annual general meeting of the Company held on 17 May 2002 and was expired on 16 May 2012. In view of the expiration of the Old Scheme, a new share option scheme (the "New Scheme") was adopted in the annual general meeting of the Company held on 30 May 2012 and will expire on 29 May 2022. The primary purpose of both the Old Scheme and the New Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide them with incentives and to help the Company in retaining its existing employees and recruiting additional employees and to provide the aforesaid eligible participants with a direct economic interest and personal stake in attaining the long term business objectives of the Company.

Under the Old Scheme, the board of Directors may grant options to any employees, including full time or part time employees, of the Company and/or its subsidiaries including any executive and non-executive directors or proposed executive and non-executive directors of the Company or its subsidiaries, advisers, consultants, agents, contractors, clients and suppliers of any members of the Group who has contributed to the Group, while under the New Scheme, the board of Directors may grant options to any employees, including full time or part time employees, of the Company and/or its subsidiaries, including any executive and non-executive directors or proposed executive and non-executive directors of the Company or its subsidiaries, advisers, consultants, customers and suppliers and/or other persons who in the sole discretion of the board of Directors has contributed or may contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the scheme for the consideration of HK\$1 for each lot of share options granted.

The maximum number of shares in respect of which options may be granted under both the Old Scheme and the New Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of adoption of the Old Scheme and New Scheme respectively. In addition, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under both the Old Scheme and the New Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of shares of the Company for the time being in issue without prior approval from the Company's shareholders in general meeting with the aforesaid proposed individual grantee and his associates being abstained from voting in such general meeting.

No options are open for acceptance under the Old Scheme since its expiry on 16 May 2012 and in relation to the New Scheme, options granted must remain open for acceptance until 5:00 p.m. on the 5th business day following the offer date provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date or after the New Scheme has been terminated. Options may be exercised during the period as the Directors may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of the grant of the options and the board of Directors may provide restrictions on the exercise of an option during the period an option may be exercised.

Total consideration received during the period from the Directors, employees and/or other persons for taking up the options granted during the year is HK\$13 (2014: HK\$Nil).

All options were vested on the date of grant upon acceptance.

The exercise price is determined by the board of Directors at the time of the grant of the relevant option and will be at least the highest of

- (a) the closing price of shares at the date of grant of a share option;
- (b) the average closing price of the shares for the five business days immediately preceding the date of grant; and
- (c) the nominal value of a share.

At the date of this report, the number of shares available for issue under the Old Scheme and the New Scheme of the Company were nil and 16,453,560 respectively, representing approximately 0% and 5.03% respectively of the shares of the Company in issue at that date.

At 26 March 2015, date of 2014 annual report of the Company, the number of shares available for issue under the Old Scheme and the New Scheme of the Company were 9,700,000 and 35,011,560 respectively, representing approximately 3.25% and 11.72% respectively of the shares of the Company in issue at that date.

Details of the movements in the Company's share options during the year are as follows

	Option type	At 1.1.2014	Granted during the year	Exercised during the year	Lapsed during the year	At 31.12.2014 & 1.1.2015	Granted during the year	Exercised during the year	Lapsed during the year	At 31.12.2015
Directors	C	5,400,000	-	-	-	5,400,000	-	-	(2,700,000)	2,700,000
	D	5,700,000	-	(5,700,000)	-	-	-	-	-	-
	E	-	-	-	-	-	11,944,000(a)	(5,972,000)	-	5,972,000
	F	-	-	-	-	-	7,472,000(a)	(1,000,000)	-	6,472,000
		11,100,000	-	(5,700,000)	-	5,400,000	19,416,000	(6,972,000)	(2,700,000)	15,144,000
Employees	B	7,000,000	-	-	-	7,000,000	-	(7,000,000)	-	-
	D	8,550,000	-	(2,850,000)	-	5,700,000	-	(5,700,000)	-	-
		15,550,000	-	(2,850,000)	-	12,700,000	-	(12,700,000)	-	-
Others	A	1,000,000	-	-	(1,000,000)	-	-	-	-	-
	F	-	-	-	-	-	9,894,000	-	-	9,894,000
		1,000,000	-	-	(1,000,000)	-	9,894,000	-	-	9,894,000
Total	27,650,000	-	(8,550,000)	(1,000,000)	18,100,000	29,310,000	(19,672,000)	(2,700,000)	25,038,000	

(a) These interests represented interests in underlying shares in respect of share options granted by the Company to these Directors and/or their spouses as beneficial owners

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
A	2 February 2005	2 May 2005 to 31 December 2014	0.608
B	2 November 2007	1 December 2007 to 31 December 2016	0.850
C	13 April 2011	1 May 2011 to 31 December 2020	0.740
D	23 July 2013	24 July 2013 to 23 July 2023	0.710
E	1 April 2015	2 April 2015 to 1 April 2025	0.770
F	5 May 2015	6 May 2015 to 5 May 2025	1.460

The closing price of the Company's shares on 2 February 2005, 2 November 2007, 13 April 2011, 23 July 2013, 1 April 2015 and 5 May 2015, the dates of grant of the options, were HK\$0.600, HK\$0.850, HK\$0.740, HK\$0.710, HK\$0.770 and HK\$1.460 respectively.

Share options were exercised on various dates during the period, the weighted average closing price of the Company's shares immediately before those dates was HK\$1.9112.

According to the Trinomial Option Pricing Model, the details of the options granted during the period under the Scheme were as follows:

Date of grant and measurement	Number of shares issuable under options granted	Option value	Closing share price at date of grant	Risk free rate	Volatility	Expiration of the options	Dividend yield
1 April 2015	11,944,000	HK\$2,848,000	HK\$0.770	1.47%	44.84%	1 April 2025	9.20%
5 May 2015	17,366,000	HK\$8,061,000	HK\$1.460	1.63%	45.81%	5 May 2025	9.20%

- (i) Historical volatilities, instead of implied volatilities, are used because the options would not have an active secondary market, and the historical daily volatilities of the Company have been applied.
- (ii) The historical dividend yield of the Company's stock is used to estimate the future dividend yield of the stock during the option validity period.
- (iii) Risk-free rate was based on the yield of HKD Hong Kong Sovereign Curve.

The values of the options are uncertain and subject to a number of assumptions and the limitation of the model.

### 33. RETIREMENT BENEFITS SCHEME

The Group participates in two defined contribution schemes which are registered under the Occupational Retirement Scheme Ordinance (the "ORSO Schemes") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Certain employees who were members of the ORSO Schemes prior to the establishment of the MPF Scheme are switched to the MPF Scheme and the remaining employees selected to remain in the ORSO Scheme. All new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. The ORSO Schemes are funded by monthly contributions from both employees and the Group at the rate of 5% the employee's basic salary.

Employees of the Group in the PRC are members of a state-managed retirement benefit plan operated by the PRC Government. The Group are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

At the end of reporting period, there was no forfeited contribution, which arose upon employees leaving the ORSO Schemes and which are available to reduce the contributions payable in future years.

The total cost recognised in the consolidated statement of profit or loss and other comprehensive income of approximately HK\$415,000 (2014: HK\$450,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

## 34. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group entered into the following significant transactions with related parties who are not members of the Group:

	2015 HK\$'000	2014 HK\$'000
Rental expenses paid to: Mr. Poon Siu Chung	120	120
	<u>120</u>	<u>120</u>
	2015 HK\$'000	2014 HK\$'000
Sales to: Onwell Headtrade Limited ( <i>Note a</i> )	–	146
	<u>–</u>	<u>146</u>

*Note a:* The shareholder of the above related company is the factory manager of a subsidiary of the Group.

## (b) Compensation of key management personnel

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

	2015 HK\$'000	2014 HK\$'000
Short-term benefits	4,757	5,402
Post-employment benefits	122	143
Share-based payments	2,832	–
	<u>7,711</u>	<u>5,545</u>

The remuneration of Directors and key executives is determined by the Board and reviewed by the remuneration committee having regard to the performance of individuals and market trends.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Foreign currency risk management**

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group currently has a foreign currency hedging policy and the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting period are as follows:

	Assets 2015 HK\$'000	Liabilities 2015 HK\$'000	Assets 2014 HK\$'000	Liabilities 2014 HK\$'000
Renminbi ("RMB")	<u>27,593</u>	<u>12,870</u>	<u>24,086</u>	<u>20,344</u>

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against the Hong Kong dollars, the effect in the profit for the year is as follows:

	<b>Impact of RMB 2015 HK\$'000</b>	<b>Impact of RMB 2014 HK\$'000</b>
Increase/decrease in profit for the year	<u>736</u>	<u>187</u>

Besides, at the end of the reporting period, the Group has bank balances of approximately US\$3,066,000, the sensitivity analysis of fluctuation in USD exchange rate is insignificant as the Hong Kong dollars banknotes are fully backed by US dollars held by Exchange Fund at the rate of HK\$7.8 to US\$1.0.

#### Liquidity risk management

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. The majority of the Group's banking facilities are subject to floating rates and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

The maturity profiles of the Group's financial liabilities at the end of reporting period based on contractual undiscounted payments are summarised below:

#### 2015

	<b>Within 1 year HK\$'000</b>	<b>1-5 years HK\$'000</b>	<b>Over 5 years HK\$'000</b>	<b>Total HK\$'000</b>
Trade payables	8,469	–	–	8,469
Accruals and other payables	13,042	–	–	13,042
Derivative financial instruments	2,646	–	–	2,646
Bank borrowings	12,519	6,257	7,330	26,106
Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	477	–	–	477
	<u>37,153</u>	<u>6,257</u>	<u>7,330</u>	<u>50,740</u>

## 2014

	Within 1 year <i>HK\$'000</i>	1-5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade payables	11,795	–	–	11,795
Accruals and other payables	19,494	–	–	19,494
Derivative financial instruments	4,156	–	–	4,156
Bank borrowings	13,649	12,516	4,090	30,255
Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	1,663	–	–	1,663
	<u>50,757</u>	<u>12,516</u>	<u>4,090</u>	<u>67,363</u>

The following table details the Group's liquidity analysis for its derivative instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows from derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows from those derivatives that require gross settlement.

	Less than 1 month <i>HK\$'000</i>	1-3 months <i>HK\$'000</i>	3 months to 1 year <i>HK\$'000</i>	Total undiscounted cash flows <i>HK\$'000</i>
<b>2015</b>				
Derivatives – net settlement				
Decumulator contracts – inflow	1,470	2,731	13,232	17,433
Accumulator contracts – outflow	(2,994)	(8,156)	(8,475)	(19,625)
	<u>(1,524)</u>	<u>(5,425)</u>	<u>4,757</u>	<u>(2,192)</u>
<b>2014</b>				
Derivatives – net settlement				
Decumulator contracts – inflow	2,749	5,507	16,370	24,626
Accumulator contracts – outflow	(2,215)	(4,478)	(13,800)	(20,493)
	<u>534</u>	<u>1,029</u>	<u>2,570</u>	<u>4,133</u>

**Interest rate risk management**

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings which are not significant.

**Credit risk management**

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2015 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the group's credit risk is significant reduced.

**Price risk management**

The Group's investments is mainly in equity securities listed in Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the relevant stock market index and other industry indicators, as well as the Group's liquidity needs. To manage its price risk arising from the equity securities, the Group maintains a portfolio of diversified investments with different risk profiles.

**Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting period. For sensitivity analysis purpose, the sensitivity rate is increased to 5% in the current year as a result of the volatile financial market.

If listed equity prices had been 5% higher/lower (2014: 5% higher/lower), profit for the year ended 31 December 2015 would increase/decrease by HK\$1,946,831 (2014: HK\$2,350,000). This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

**Fair values**

As at 31 December 2015, the carrying amount of cash and cash equivalents, prepayments, deposits and other receivables, accrued liabilities and other payables approximated their fair values due to the short-term maturities of these assets and liabilities. The Directors consider that financial assets at fair value through profit or loss are included in the statement of financial position at amounts approximating to their fair values.

As detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values:

The following table presents the carrying value of financial instruments measured at fair value at 31 December 2015 across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (Highest level): fair values measured are those derived from quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2: fair values measured are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 (Lowest level): fair values measured are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2015

	Fair value as at 31 December 2015 <i>HK\$'000</i>	Fair value hierarchy	Valuation techniques and key inputs
<b>Assets</b>			
Held for trading investments			
– Listed equity securities	38,937	Level 1	Quoted bid prices in an active market

2015

	Fair value as at 31 December 2015 <i>HK\$'000</i>	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
<b>Assets</b>				
Financial assets designated as at fair value through profit or loss – Equity- linked notes	938	Level 3	Monte carlo simulation. This technique is to estimate a probable outcome using certain parameters such as volatility of underlying security.	Volatility of the underlying security is 30.03%  An increase in the volatility of underlying security would result in an increase in the fair value measurement of the equity-linked notes and vice versa.
Derivative financial assets	244	Level 3	Monte carlo simulation. This technique is to estimate a probable outcome using certain parameters such as volatility of underlying securities.	Volatility of the underlying securities, ranging from 24.05% to 33.01%  An increase in the volatility of underlying securities would result in an increase in the fair value measurement of the derivative financial investments and vice versa.
<b>Liabilities</b>				
Derivative financial liabilities	2,646	Level 3	Monte carlo simulation. This technique is to estimate a probable outcome using certain parameters such as volatility of underlying securities.	Volatility of the underlying securities, ranging from 20.28% to 37.58%  An increase in the volatility of underlying securities would result in an increase in the fair value measurement of the derivative financial investments and vice versa.

There were no transfers between Levels 1, 2 and 3 in the current year.

2014	Fair value as at 31 December 2014 <i>HK\$'000</i>	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
<b>Assets</b>				
Held for trading investments	43,863	Level 1	Quoted bid prices in an active market	N/A
– Listed equity securities				
– Debt securities listed overseas	3,130	Level 1	Quoted bid prices in an active market	N/A
Derivative financial assets	45	Level 3	Monte carlo simulation. This technique is to estimate a probable outcome using certain parameters such as volatility of underlying securities.	Volatility of the underlying securities, ranging from 24.59% to 41.92%.  An increase in the volatility of underlying securities would result in an increase in the fair value measurement of the derivative financial investments and vice versa.
<b>Liabilities</b>				
Derivative financial liabilities	4,156	Level 3	Monte carlo simulation. This technique is to estimate a probable outcome using certain parameters such as volatility of underlying securities.	Volatility of the underlying securities, ranging from 24.47% to 41.92%.  An increase in the volatility of underlying securities would result in an increase in the fair value measurement of the derivative financial investments and vice versa.

There were no transfers between Levels 1, 2 and 3 in 2014.

#### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

During 2015, the Group's strategy remained unchanged as compared to that in 2014. The Group monitors capital on the basis of the gearing ratio. This gearing ratio is calculated as total bank borrowings divided by equity attributable to owners of the Company.

The management considers the gearing ratio at the year end was as follows:

	2015 HK\$'000	2014 HK\$'000
Borrowings	26,106	30,255
Equity attributable to owners of the Company	182,987	182,301
Gearing ratio	14%	17%

### 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/paid up capital held by the Company		Paid up ordinary share capital	Principal activities
		Directly	Indirectly		
Asia Rich (Far East) Limited	Hong Kong	–	79.6%	HK\$2	Investment holding
Benefit International Packing Materials Limited	Hong Kong	–	100%	HK\$10,000	Trading of PVC films
Benefit Packing Materials Limited	Hong Kong	–	75%	HK\$1,000,000	Trading of PVC films
Beyond Growth International Limited	Hong Kong	–	79.6%	HK\$100,000	Manufacture and sales of toys
Dream Creation Limited	Hong Kong	–	79.6%	HK\$2	Investment holding and distribution of toys
Fareastern Trade Limited	British Virgin Islands ("BVI")	–	88%	US\$87,618	Investment holding
Freshwater Trading Limited	BVI	–	100%	US\$1	Investment holding
Golden Enterprise Holdings Limited	Hong Kong	–	100%	HK\$2	Distribution of toys
Headfit Paper Bags Trading Limited	Hong Kong	–	100%	HK\$10,000	Securities investments and trading of paper bags
iTech Limited	Hong Kong	–	100%	HK\$2	Investment holding
Leader Packaging Company Limited	Hong Kong	–	100%	HK\$1,000,000	Investment holding
Leader Stationery & Gifts Manufacturing Company Limited	Hong Kong	–	100%	HK\$1,000,000	Manufacture and sales of stationery products
Link Faith Company Limited	Hong Kong	–	100%	HK\$100,000	Securities investments
Mars Technology Limited	BVI	–	79.6%	US\$10,000	Investment holding
New Genius Technology Limited	BVI	–	100%	US\$1	Investment holding

**APPENDIX II**
**FINANCIAL INFORMATION OF THE GROUP**

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/paid up capital held by the Company		Paid up ordinary share capital	Principal activities
		Directly	Indirectly		
Onward Packing Manufacturer Limited	Hong Kong	–	100%	HK\$320,000	Manufacture of novelties, festival decoration products
Perfectech Colour Centre Limited	Hong Kong	–	100%	HK\$1,000,000	Dye stuff manufacturing
Perfectech Enterprises (B.V.I.) Limited	BVI	–	100%	US\$1	Investment holding
Perfectech International (B.V.I.) Limited	BVI	100%	–	US\$50	Investment holding
Perfectech International Toys Limited	Hong Kong	–	100%	HK\$1,000,000	Investment holding
Perfectech International Limited	Hong Kong	–	100%	HK\$200 HK\$80,000 (non-voting deferred shares)	Investment holding
Perfectech International Manufacturing Limited	BVI	–	100%	US\$2,457,000	Investment holding
Perfectech International Packaging Products Company Limited	Hong Kong	–	100%	HK\$450,000	Manufacture of packaging products
Perfectech International Trading Limited	Hong Kong	–	100%	HK\$2	Trading of novelties and festival decoration
Perfectech Paper Products Company Limited	Hong Kong	–	100%	HK\$1,000,000	Manufacture of paper products
Perfectech Plastic Limited	Hong Kong	–	100%	HK\$1,000,000	Trading of plastic materials
Perfectech Printing Company Limited	Hong Kong	–	100%	HK\$1,000,000	Manufacture of printing products
Perfectech Rigid (PVC) Pipe Manufacturing Limited	Hong Kong	–	100%	HK\$1,000,000	Investment holding
Shouji Mold Engineering Company Limited	Hong Kong	–	88%	HK\$2	Distribution of moulds
Shouji Tooling Factory Limited	Hong Kong	–	88%	HK\$1,000	Manufacture and sales of moulds
Skyrocket Assets Limited	BVI	–	100%	US\$1	Investment holding
Sunflower Garland Manufactory Limited	Hong Kong	–	100%	HK\$2 HK\$160,000 (non-voting deferred shares)	Securities investment

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/paid up capital held by the Company		Paid up ordinary share capital	Principal activities
		Directly	Indirectly		
Yu-Me (H.K.) Limited	Hong Kong	-	100%	HK\$2	Provision of management services
中山市威嘉紙品有限公司	The PRC	-	100%	HK\$12,500,000	Manufacture of paper products
東青林模具塑膠(深圳)有限公司	The PRC	-	88%	HK\$45,004,200	Manufacture and sales of moulds
珠海市多發塑膠制品有限公司	The PRC	-	100%	HK\$500,000	Manufacture and trading of novelties and festival decoration products
江門市安發塑膠制品有限公司	The PRC	-	100%	HK\$600,000	Manufacture of novelties and festival decoration products
中山市威發塑膠制品有限公司	The PRC	-	100%	RMB6,000,000	Manufacture of novelties and festival decoration products
中山市志發玩具有限公司	The PRC	-	79.6%	RMB8,000,000	Manufacture and sales of toys

None of the subsidiaries had any debt securities outstanding at the end of the year.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ operations	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	2015	2014	2015	2014
		Fareastern Trade Limited	BVI/Hong Kong	88%	88%	137	1,198
Mars Technology Limited	BVI/Hong Kong	79.6%	79.6%	2,579	1,471	8,798	7,126

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

## Fareastern Trade Limited and its wholly owned subsidiary (Fareastern Group)

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current assets	188,681	177,030
Non-current assets	28,786	29,766
Current liabilities	(156,350)	(141,952)
Non-current liabilities	(186)	(274)
Equity attributable to owners of the Company	54,751	57,831
Non-controlling interests	6,180	6,739
Revenue	76,666	92,005
Expenses	(75,526)	(82,024)
Profit for the year	1,140	9,981
Profit for the year attributable to owners of the Company	1,003	8,783
Profit for the year attributable to the non-controlling interests	137	1,198
Profit for the year	1,140	9,981
Other comprehensive expenses attributable to owners of the Company	(1,286)	(104)
Other comprehensive expenses attributable to the non-controlling interests	(175)	(14)
Other comprehensive expenses for the year	(1,461)	(118)
Total comprehensive (expenses) income attributable to owners of the Company	(283)	8,679
Total comprehensive (expenses) income attributable to the non-controlling interests	(38)	1,184
Total comprehensive (expenses) income for the year	(321)	9,863
Net cash inflow from operating activities	4,096	3,336
Net cash outflow from investing activities	(2,011)	(8,129)
Net cash outflow from financing activities	(683)	(562)
Net cash inflow (outflow)	1,402	(5,355)

## Mars Technology Limited and its wholly owned subsidiary (Mars Group)

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current assets	138,405	121,248
Non-current assets	7,204	6,220
Current liabilities	(102,897)	(93,326)
Non-current liabilities	–	–
Equity attributable to owners of the Company	33,914	27,016
Non-controlling interests	8,798	7,126
Revenue	87,755	78,191
Expenses	(75,111)	(70,980)
Profit for the year	12,644	7,211
Profit for the year attributable to owners of the Company	10,065	5,740
Profit for the year attributable to the non-controlling interests	2,579	1,471
Profit for the year	12,644	7,211
Other comprehensive (expenses) income attributable to owners of the Company	(376)	40
Other comprehensive (expenses) income attributable to the non-controlling interests	(97)	10
Other comprehensive (expenses) income for the year	(473)	50
Total comprehensive income attributable to owners of the Company	9,689	5,780
Total comprehensive income attributable to the non-controlling interests	2,482	1,481
Total comprehensive income for the year	12,171	7,261
Net cash inflow (outflow) from operating activities	16,423	(13,791)
Net cash outflow from investing activities	(2,246)	(1,343)
Net cash outflow from financing activities	(648)	(1,226)
Net cash inflow (outflow)	13,529	(16,360)

## 37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>		
Unlisted investments in subsidiaries	32,061	32,061
	<u>32,061</u>	<u>32,061</u>
<b>CURRENT ASSETS</b>		
Prepayment and deposit	263	262
Amounts due from subsidiaries ( <i>Note a</i> )	212,510	181,830
Bank balances and cash	187	184
	<u>212,960</u>	<u>182,276</u>
<b>CURRENT LIABILITIES</b>		
Accrued expenses	170	160
Amounts due to subsidiaries ( <i>Note a</i> )	62,824	58,842
Tax liabilities	982	982
	<u>63,976</u>	<u>59,984</u>
<b>NET CURRENT ASSETS</b>	<u>148,984</u>	<u>122,292</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>181,045</u>	<u>154,353</u>
<b>NET ASSETS</b>	<u><u>181,045</u></u>	<u><u>154,353</u></u>
<b>CAPITAL AND RESERVES</b>		
Share capital ( <i>Note 26</i> )	31,834	29,867
Reserves	149,211	124,486
<b>TOTAL EQUITY</b>	<u><u>181,045</u></u>	<u><u>154,353</u></u>

*Note a:* The amounts due from/to subsidiaries are unsecured, interest free and had no fixed term of repayment.

## Movement in the Company's reserves

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2014	29,012	86,465	10,337	4,889	36,699	167,402
Share options lapsed	-	-	-	(126)	126	-
Shares issued upon exercise of options	855	6,490	-	(1,274)	-	6,071
Dividends	-	-	-	-	(32,270)	(32,270)
Profit and total comprehensive income for the year	-	-	-	-	13,150	13,150
At 31 December 2014	<u>29,867</u>	<u>92,955</u>	<u>10,337</u>	<u>3,489</u>	<u>17,705</u>	<u>154,353</u>
Share options granted	-	-	-	10,909	-	10,909
Share options lapsed	-	-	-	(599)	599	-
Shares issued upon exercise of options	1,967	18,267	-	(4,179)	-	16,055
Dividends	-	-	-	-	(9,173)	(9,173)
Profit and total comprehensive income for the year	-	-	-	-	8,901	8,901
At 31 December 2015	<u>31,834</u>	<u>111,222</u>	<u>10,337</u>	<u>9,620</u>	<u>18,032</u>	<u>181,045</u>

## 38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified or restated to conform to the current year's presentation.

### 3. FINANCIAL INFORMATION OF THE COMPANY FOR THE SIX MONTHS ENDED 30 JUNE 2016

Set out below is the full text of the unaudited consolidated financial statements of the Company for the six months period ended 30 June 2016 extracted from the interim report of the Company for the six months ended 30 June 2016.

#### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016

		(Unaudited)	
		For the six months ended 30 June	
		2016	2015
		HK\$'000	HK\$'000
	Notes		
Revenue	2 & 3	87,355	75,311
Cost of sales		(66,837)	(64,940)
		<hr/>	<hr/>
Gross profit		20,518	10,371
Other income, gains and losses	4	3,121	7,879
Distribution costs		(1,906)	(1,912)
Administrative expenses		(17,719)	(29,239)
Finance costs		(289)	(326)
		<hr/>	<hr/>
Profit (loss) before tax	5	3,725	(13,227)
Income tax expenses	6	(315)	(219)
		<hr/>	<hr/>
Profit (loss) for the period		3,410	(13,446)
		<hr/>	<hr/>
Other comprehensive (expenses) income, net of income tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of overseas operations		(526)	118
		<hr/>	<hr/>
Total comprehensive income (expenses) for the period		2,884	(13,328)
		<hr/> <hr/>	<hr/> <hr/>

		(Unaudited)	
		For the six months ended 30 June	
		2016	2015
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the period attributable to:			
	Owners of the Company	1,565	(13,440)
	Non-controlling interests	1,845	(6)
		<u>3,410</u>	<u>(13,446)</u>
Profit (loss) for the period			
		<u><u>3,410</u></u>	<u><u>(13,446)</u></u>
Total comprehensive income (expenses) for the period attributable to:			
	Owners of the Company	1,100	(13,329)
	Non-controlling interests	1,784	1
		<u>2,884</u>	<u>1</u>
Total comprehensive income (expenses) for the period			
		<u><u>2,884</u></u>	<u><u>(13,328)</u></u>
Earnings (loss) per share			
	Basic	0.48 cent	(4.48) cents
		<u>0.48 cent</u>	<u>(4.48) cents</u>
	Diluted	0.48 cent	(4.48) cents
		<u>0.48 cent</u>	<u>(4.48) cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*AS AT 30 JUNE 2016*

		(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	59,242	62,418
Investment property		31,400	31,400
Deferred tax assets		8,172	7,137
		<u>98,814</u>	<u>100,955</u>
<b>CURRENT ASSETS</b>			
Inventories		22,426	17,145
Trade and other receivables	10	32,290	23,974
Tax recoverable		2,797	3,443
Held for trading investments	12	55,330	38,937
Derivative financial instruments	11	40	244
Financial assets designated as at fair value through profit or loss		–	938
Pledged bank deposits		1,116	1,119
Bank balances and cash		56,074	66,286
		<u>170,073</u>	<u>152,086</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	33,792	21,511
Derivative financial instruments	11	664	2,646
Tax liabilities		3,068	3,885
Bank borrowings – due within one year	14	24,606	26,106
		<u>62,130</u>	<u>54,148</u>

		(Unaudited) 30 June 2016 <i>HK\$'000</i>	(Audited) 31 December 2015 <i>HK\$'000</i>
	<i>Notes</i>		
NET CURRENT ASSETS		107,943	97,938
TOTAL ASSETS LESS CURRENT LIABILITIES		206,757	198,893
NON CURRENT LIABILITIES			
Deferred tax liabilities		1	198
NET ASSETS		206,756	198,695
CAPITAL AND RESERVES			
Share capital	15	32,692	31,834
Reserves		157,925	151,153
Equity attributable to owners of the Company		190,617	182,987
Non-controlling interests		16,139	15,708
TOTAL EQUITY		206,756	198,695

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	(Unaudited)								
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Equity attributable to owners of the Company HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2016	31,834	111,222	10,337	9,620	249	19,725	182,987	15,708	198,695
Profit for the period	-	-	-	-	-	1,565	1,565	1,845	3,410
Other comprehensive expenses for the period									
Exchange difference on translation of overseas operations	-	-	-	-	(465)	-	(465)	(61)	(526)
Total comprehensive (expenses) income for the period	-	-	-	-	(465)	1,565	1,100	1,784	2,884
Dividends	-	-	-	-	-	-	-	(1,353)	(1,353)
Shares issued upon exercise of options	858	7,674	-	(2,002)	-	-	6,530	-	6,530
At 30 June 2015	<u>32,692</u>	<u>118,896</u>	<u>10,337</u>	<u>7,618</u>	<u>(216)</u>	<u>21,290</u>	<u>190,617</u>	<u>16,139</u>	<u>206,756</u>
At 1 January 2015	29,867	92,955	10,337	3,489	1,264	44,389	182,301	14,597	196,898
Loss for the period	-	-	-	-	-	(13,440)	(13,440)	(6)	(13,446)
Other comprehensive income for the period									
Exchange difference on translation of overseas operations	-	-	-	-	111	-	111	7	118
Total comprehensive income (expenses) for the period	-	-	-	-	111	(13,440)	(13,329)	1	(13,328)
Dividends	-	-	-	-	-	(5,989)	(5,989)	(1,332)	(7,321)
Shares issued upon exercise of options	1,670	15,567	-	(3,471)	-	-	13,766	-	13,766
Share option granted	-	-	-	10,909	-	-	10,909	-	10,909
Share option lapsed	-	-	-	(599)	-	599	-	-	-
At 30 June 2015	<u>31,537</u>	<u>108,522</u>	<u>10,337</u>	<u>10,328</u>	<u>1,375</u>	<u>25,559</u>	<u>187,658</u>	<u>13,266</u>	<u>200,924</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2016*

	(Unaudited)	
	For the six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	5,073	(12,379)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(18,147)	4,735
NET CASH FROM FINANCING ACTIVITIES	3,388	3,453
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,686)	(4,191)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		
Bank balances and cash	66,286	49,060
Effect of change in foreign exchange rates	(526)	118
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u>56,074</u>	<u>44,987</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<u>56,074</u>	<u>44,987</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION AND SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

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

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015 except as described below.

In the current period, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2016 as follows:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisition of Interest in Joint Operations
Amendments to HKFRSs	Annual Improvements 2012-2014 cycle

The adoption of these new developments had no material effect on how the results and financial position of the Group for the current or prior accounting periods would have been prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

## 2. BUSINESS SEGMENTS

For management purposes, the Group's business is currently divided into two segments, namely, manufacture and sale of (i) novelties and decoration products and (ii) toy products.

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

For the six months ended 30 June 2016 (Unaudited)

	Novelties and decorations products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>				
External sales	7,542	79,813	–	87,355
Inter-segment sales	–	–	–	–
Total revenue	<u>7,542</u>	<u>79,813</u>	<u>–</u>	<u>87,355</u>
<b>RESULT</b>				
Segment results	<u>(4,735)</u>	<u>10,975</u>	<u>–</u>	6,240
Profit from investments				876
Unallocated corporate expenses				(3,102)
Finance costs				(289)
Profit before tax				3,725
Income tax expenses				(315)
Profit for the period				<u>3,410</u>
	Novelties and decorations products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>	
<b>ASSETS</b>				
Segment assets	26,311	100,867	127,178	
Unallocated corporate assets			141,709	
Consolidated total assets			<u>268,887</u>	
<b>LIABILITIES</b>				
Segment liabilities	16,752	26,087	42,839	
Unallocated corporate liabilities			19,292	
Consolidated total liabilities			<u>62,131</u>	

## OTHER INFORMATION

For the six months ended 30 June 2016 (Unaudited)

	Novelties and decorations products HK\$'000	Toy products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	407	359	–	766
Depreciation and amortisation	533	2,575	832	3,940
Interest income	10	9	18	37

For the six months ended 30 June 2015 (Unaudited)

	Novelties and decorations products HK\$'000	Toy products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>				
External sales	11,082	64,229	–	75,311
Inter-segment sales	–	–	–	–
Total revenue	<u>11,082</u>	<u>64,229</u>	<u>–</u>	<u>75,311</u>
<b>RESULT</b>				
Segment results	<u>(2,397)</u>	<u>(1,147)</u>	<u>–</u>	(3,544)
Profit from investments				4,299
Unallocated corporate expenses				(13,656)
Finance costs				<u>(326)</u>
Loss before tax				(13,227)
Income tax expenses				<u>(219)</u>
Loss for the period				<u><u>(13,446)</u></u>

*As at 31 December 2015 (Audited)*

	<b>Novelties and decorations products HK\$'000</b>	<b>Toy products HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>ASSETS</b>			
Segment assets	30,549	92,646	123,195
Unallocated corporate assets			129,846
			<hr/>
Consolidated total assets			253,041
			<hr/> <hr/>
<b>LIABILITIES</b>			
Segment liabilities	12,549	20,353	32,902
Unallocated corporate liabilities			21,444
			<hr/>
Consolidated total liabilities			54,346
			<hr/> <hr/>

**OTHER INFORMATION**

*For the six months ended 30 June 2015 (Unaudited)*

	<b>Novelties and decorations products HK\$'000</b>	<b>Toy products HK\$'000</b>	<b>Others HK\$'000</b>	<b>Consolidated HK\$'000</b>
Capital additions	63	236	1,258	1,557
Depreciation and amortisation	676	2,401	791	3,868
Interest income	14	7	19	40

**Information about major customer**

Included in revenues arising from sales of toys products of approximately HK\$79,813,000 (2015: HK\$64,229,000) are revenues of approximately HK\$75,845,000 (2015: HK\$60,106,000) which arose from sales to the Group's largest customer.

## 3. GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's sales by geographical segments:

	(Unaudited) For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Sales revenue by geographical market:		
Hong Kong	2,314	5,143
Europe	20,802	13,797
America	26,446	20,782
Asia (other than Hong Kong)	35,841	35,524
Others	1,952	65
	<u>87,355</u>	<u>75,311</u>

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

	(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
Hong Kong	197,689	176,073
The People's Republic of China (the "PRC")	71,198	76,968
	<u>268,887</u>	<u>253,041</u>

The following is analysis of the additions to property, plant and equipment analysed by geographical areas in which the assets are located:

	(Unaudited) For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Hong Kong	36	1,258
The PRC	730	299
	<u>766</u>	<u>1,557</u>

## 4. OTHER INCOME, GAINS AND LOSSES

	(Unaudited) For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Bad debts recovered	1	277
Bond interest income	–	8
Dividend income from held for trading investments	1,366	1,016
Gain on disposal of property, plant and equipment	160	2,655
Gain (loss) on disposal of held for trading investments	365	(519)
(Loss) gain from changes in fair value of held for trading investments	(2,634)	1,552
Gain from changes in fair value of derivative financial instruments	1,778	2,239
Interest income	37	40
Net exchange gains (losses)	400	(721)
Rental income	306	30
Scrap sales	694	790
Others	648	512
	<u>3,121</u>	<u>7,879</u>

## 5. PROFIT (LOSS) BEFORE TAX

Profit (loss) before tax has been arrived after charging:

	(Unaudited) For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Depreciation of property, plant and equipment	<u>3,940</u>	<u>3,868</u>

## 6. INCOME TAX EXPENSES

	(Unaudited) For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	(1,412)	(105)
PRC Enterprise Income tax	(53)	–
	<u>(1,465)</u>	<u>(105)</u>
(Under) over provision in prior years:		
Hong Kong Profits Tax	–	10
PRC Enterprise Income tax	(82)	(108)
	<u>(82)</u>	<u>(98)</u>
Deferred tax credit (charge):		
Current year	1,232	(16)
	<u>1,232</u>	<u>(16)</u>
Total income tax expenses recognised in profit or loss	<u><u>(315)</u></u>	<u><u>(219)</u></u>

Hong Kong Profits Tax is stated at 16.5% of the estimated assessable profits for both periods.

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

## 7. DIVIDENDS

	(Unaudited) For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Final paid:		
Nil (2015: HK2.0 cents per share for 2014)	–	5,989
	<u>–</u>	<u>5,989</u>

The Directors have resolved to declare an interim dividend of HK1.0 cent (2015: HK1.0 cent) per share.

**8. EARNINGS (LOSS) PER SHARE**

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company is based on the net profit for the period of approximately HK\$1,565,000 (2015: loss of HK\$13,440,000) and the following data:

	(Unaudited) For the six months ended 30 June	
	2016	2015
Weighted average number of ordinary shares for the purposes of basic earnings per share	324,793,025	299,896,270
Effect of dilutive potential ordinary shares:		
Share options	476,573	3,376,840
Weighted average number of ordinary shares for the purposes of diluted earnings per share	325,269,598	303,273,110

Diluted loss per share for the period ended 30 June 2015 is the same as basic loss per share because the share options outstanding had an anti-dilutive effect in the calculation of diluted loss per share.

**9. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$766,000 (2015: HK\$1,557,000).

**10. TRADE AND OTHER RECEIVABLES**

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 at the end of the reporting period:

	(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
0-60 days	24,112	13,891
61-90 days	22	61
91-120 days	8	–
Over 120 days	1	28
	24,143	13,980

Trade receivables disclosed above include amounts which are past due at the end of reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The following is an aging analysis of the Group's trade receivables that are past due but not impaired at the end of the reporting period:

	(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
0-60 days	7,200	2,183
61-90 days	–	–
91-120 days	–	28
Over 120 days	1	–
	<u>7,201</u>	<u>2,211</u>

#### 11. DERIVATIVE FINANCIAL INSTRUMENTS

	(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
Financial assets		
Equity accumulators	40	85
Equity decumulators	–	159
	<u>40</u>	<u>244</u>
Financial liabilities		
Equity accumulators	(149)	(2,646)
Equity decumulators	(515)	–
	<u>(664)</u>	<u>(2,646)</u>

As at 30 June 2016, the major terms of the listed equity decumulators contracts held by the Group were as follows:

Nominal Amount	Underlying Securities	Maturity	Forward Prices
HK\$5,661,166	CNOOC Limited	6 February 2017	HK\$9.47
HK\$5,638,795	CNOOC Limited	27 February 2017	HK\$9.72
HK\$5,472,641	Hong Kong Exchanges and Clearing Limited	3 March 2017	HK\$200.61
HK\$7,570,530	China Petroleum & Chemical Corporation	30 June 2017	HK\$6.39

As at 30 June 2016, the major terms of the listed equity accumulators contracts held by the Group were as follows:

Nominal Amount	Underlying Securities	Maturity	Forward Prices
HK\$4,745,827	China Life Insurance Company Limited	7 July 2016	HK\$25.86
HK\$6,126,537	Hong Kong Exchanges and Clearing Limited	21 July 2016	HK\$190.80
HK\$4,651,425	Hong Kong Exchanges and Clearing Limited	17 August 2016	HK\$168.14

## 12. HELD FOR TRADING INVESTMENTS

	(Unaudited) 30 June 2016 <i>HK\$'000</i>	(Audited) 31 December 2015 <i>HK\$'000</i>
Equity securities listed in Hong Kong	52,210	38,937
Unlisted bond	3,120	–
	<u>55,330</u>	<u>38,937</u>

The movements of held for trading investments during the period:

	(Unaudited) 30 June 2016 <i>HK\$'000</i>	(Unaudited) 30 June 2015 <i>HK\$'000</i>
Balance at the beginning of the period	38,937	46,993
Additions	25,152	16,032
Disposals	(6,125)	(21,807)
(Loss) gain from changes in fair value of held for trading investments	(2,634)	1,552
	<u>55,330</u>	<u>42,770</u>

The fair values of the held for trading investments are determined based on the market closing prices available on the relevant exchanges at 30 June 2016.

## 13. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables at the end of the period:

	(Unaudited) 30 June 2016 <i>HK\$'000</i>	(Audited) 31 December 2015 <i>HK\$'000</i>
0-60 days	11,038	6,723
61-90 days	2,645	1,064
91-120 days	54	94
Over 120 days	950	588
	<u>14,687</u>	<u>8,469</u>

## 14. BANK BORROWINGS

	(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
Secured mortgage loans	24,606	26,106

The secured mortgage loans were secured by a mortgage over the Group's land and buildings and investment properties.

The amounts bear interest at prevailing market rates and are repayable as follows:

	(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
On demand or within one year	12,556	12,519
More than one year, but not exceeding two years ( <i>Note</i> )	3,128	6,257
More than two years, but not exceeding five years ( <i>Note</i> )	8,238	7,330
More than five years ( <i>Note</i> )	684	–
	<u>24,606</u>	<u>26,106</u>

*Note:* These bank loans that are not repayable within one year from the end of the reporting period but as these loans include a clause that gives the lender the unconditional right to call the loans at any time, and according to HK Int 5 which requires the classification of the whole term loans containing the repayment on demand clause as current liabilities, all the term loans were classified by the Group as current liabilities.

## 15. SHARE CAPITAL

	(Unaudited)			
	Authorised		Issued and fully paid	
	For the six months ended 30 June			
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ordinary shares of HK\$0.1 each				
At beginning of the period	70,000	70,000	31,834	29,867
Issue of shares on exercise of options	–	–	858	1,670
At end of the period	<u>70,000</u>	<u>70,000</u>	<u>32,692</u>	<u>31,537</u>

## 16. COMMITMENTS

## (a) Capital commitments for property, plant and equipment

	(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
Contracted but not provided for	613	477
Authorised but not contracted for	—	—
	<u>613</u>	<u>477</u>

## (b) Operating lease commitments

**The Group as lessee**

At the end of the period, the Group had commitments for future minimum lease payments under non-cancelable operating leases in respect of rented premises which fall due as follows:

	(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
Within one year	5,268	4,387
In the second to fifth years inclusive	11,552	6,211
Over five years	25,607	—
	<u>42,427</u>	<u>10,598</u>

Operating lease payments represent rental payable by the Group for certain of its office and factory properties. Leases are negotiated for a term from 1 to 29 years.

**The Group as lessor**

	(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
Within one year	591	577
In the second to fifth years inclusive	82	279
	<u>673</u>	<u>856</u>

## 17. OTHER COMMITMENTS

As at 30 June 2016, the Group carried outstanding forward contracts which entitled a commitment for the sale and purchase of equity shares of notional amount of approximately HK\$19,308,000 and HK\$1,695,000 respectively (31 December 2015: HK\$17,433,000 and HK\$19,625,000) as disclosed in note 11.

**18. CONTINGENT LIABILITIES****(a) Contingent liability in respect of legal claim**

A subsidiary of the Group (the “Subsidiary”) has served a writ and claimed against three former employees of the Subsidiary (the “Defendants”). The claim related to the misconduct of the Defendants during their employment with the Subsidiary. The Defendants have filed a defence and counterclaim against the Subsidiary for wages and other payments allegedly payable upon their termination of employment with the Subsidiary amounting to approximately HK\$419,000 together with interests and costs. The Directors take the views that the amount of their claims against the Defendants will exceed the Defendants’ counterclaims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

**(b) Financial guarantees issued**

As at the end of the reporting period, the Company had issued the following guarantees:

A corporate guarantee to banks in respect of banking facilities granted to its subsidiaries.

The Company is also one of the entities covered by a cross guarantee arrangement issued by the Company and its subsidiaries to banks in respect of banking facilities granted to the Group which remains in force so long as the Group has drawn down under the banking facilities. Under the guarantee, the Company and all the subsidiaries that are a party to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

As at 30 June 2016, the Directors did not consider it probable that a claim will be made against the Company under any of the guarantees as the probability of default payment for the loans drawn down by the subsidiaries is remote.

The Company has not recognised any deferred income in respect of the corporate guarantee as its fair value cannot be reliably measured and its transaction price was nil.

**19. RELATED PARTY TRANSACTIONS**

During the period, the Group entered into the following significant transactions with related parties who are not members of the Group:

	(Unaudited)	
	For the six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Rental expenses paid to:		
Mr. Poon Siu Chung	60	60

The above transactions were determined by the directors by reference to the relevant estimated market values.

**20. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified or restated to conform to the current year’s presentation.

**4. INDEBTEDNESS**

As at the close of business on 31 August 2016, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Composite Document, the Group had outstanding secured bank loans of approximately HK\$24.1 million, which were secured by the Group's leasehold land and buildings and investment properties, and had utilized margin loan facilities of approximately of HK\$2.2 million.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any other outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities at the close of business on 31 August 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this Composite Document.

**5. MATERIAL CHANGE**

As disclosed in the interim results announcement of the Company for the six months ended 30 June 2016, the Group recorded a consolidated net profit for the six months ended 30 June 2016 as compared to a consolidated net loss for the corresponding period in 2015, which was mainly due to, among others, no share based payment being incurred since no share options were granted and the increase in gross profit margin of the toy products segment for the six months ended 30 June 2016.

Save as disclosed above, the Directors confirmed that as at the Latest Practicable Date, there had been no material changes in the financial or trading position or outlook of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made, up to the Latest Practicable Date.

## 1. RESPONSIBILITY STATEMENTS

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Share Offer and the Option Offer, the Offerors and the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Offerors and their Concert Parties), and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than the information relating to the Offerors and their Concert Parties) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading.

The sole director of Star Fly accepts full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group and Fresh Choice and any of their Concert Parties), and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than the information relating to the Group and Fresh Choice and any of their Concert Parties) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading.

The sole director of Fresh Choice accepts full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group and Star Fly and any of their Concert Parties), and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than the information relating to the Group and Star Fly and any of their Concert Parties) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading.

## 2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the Company had an authorised ordinary share capital of HK\$70,000,000 divided into 700,000,000 Shares of HK\$0.10 each. The authorised and issued ordinary share capital of the Company as at the Latest Practicable Date were as follows:

### **As at the Latest Practicable Date**

<i>Authorised:</i>	<i>HK\$</i>
700,000,000 Shares	70,000,000
<i>Issued and fully-paid:</i>	
326,923,607 Shares	32,692,361

All the existing Shares in issue are fully paid up and rank pari passu in all respects with each other in all respects, including all rights in respect of capital, dividends and voting.

Since 31 December 2015 (being the date to which the latest published audited financial statements of the Group were made up) and up to the Latest Practicable Date, the Company has issued 8,586,000 Shares.

As at the Latest Practicable Date, there were 16,452,000 Options outstanding, details of which are set out below. If all of such Options were exercised, a total of 16,452,000 new Shares would be issued.

<b>Date of grant</b>	<b>Exercise price</b>	<b>Period during which options outstanding are exercisable</b>	<b>Number of Shares subject to the Options outstanding</b>
1 April 2015	HK\$0.77	2 April 2015 to 1 April 2025	86,000
5 May 2015	HK\$1.46	6 May 2015 to 5 May 2025	16,366,000

Save for the 16,452,000 Options, the Company does not have any outstanding options, derivatives, warrants, or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares, and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

### 3. MARKET PRICES

The table below sets out the closing prices of the Shares on the Stock Exchange on (i) the last Business Day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

<b>Date</b>	<b>Closing price per Share</b> <i>HK\$</i>
<b>2015</b>	
31 December	1.63
<b>2016</b>	
29 January	1.21
29 February	1.33
31 March	1.53
29 April	1.56
27 May ( <i>Note</i> )	1.79
31 May ( <i>Note</i> )	Suspended
30 June	1.47
29 July	1.49
31 August	1.54
27 September (Last Trading Day)	1.68
30 September	Suspended
Last Practicable Date	1.79

*Note:* Trading of the Shares on the Stock Exchange was suspended from 9:00 a.m. on 30 May 2016 to 1 June 2016 pending the release of the announcement in relation to the Exclusivity Agreement.

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$1.84 per Share on 10 December 2015; and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$1.13 per Share on 20 January 2016.

#### 4. DISCLOSURE OF INTERESTS

##### (a) Interests and short positions in the securities of the Company and its associate corporations of the Directors and chief executive

As at the Latest Practicable Date, the following Directors and chief executives had, or were deemed to have, interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which are (ii) required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which are (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange:

Name of director	Nature of interest	Number of Shares	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company
Mr. Poon	Beneficial owner	22,764,000	86,000 (b)	140,393,430 (L)(a)	42.94
	Interest of spouse	16,404,000	-		
	Interest of controlled corporation	101,139,430	-		
Dr. Poon Wai Tsun, William	Interest of spouse	-	2,986,000 (b)	2,986,000 (L)	0.91
Mr. Poon Wai Yip, Albert	Interest of spouse	-	2,986,000 (b)	2,986,000 (L)	0.91
Mr. Choy Wing Keung, David	Beneficial owner	-	500,000 (b)	500,000 (L)	0.15

(L) denotes long position

*Notes:*

- (a) Mr. Poon was the beneficial owner of 22,764,000 Shares and he was deemed to be interested in 16,404,000 Shares and 101,139,430 Shares which were held by his spouse, Ms. Lau and through Mime.
- (b) These interests represented interest in underlying shares of the Company in respect of share options of the Company granted under the Share Option Scheme to these Directors and/or their spouses as beneficial owners.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were otherwise required to notify the Company and the Stock Exchange pursuant to the Model Code.

**(b) Interests and short positions of substantial Shareholders**

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Shareholders	Nature of interest	Number of Shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company
Ms. Lau	Beneficial owner	16,404,000	–	140,393,430 (L)(a)	42.94
	Interest of spouse	22,764,000	86,000		
	Interest of controlled corporation	101,139,430	–		
Mime	Beneficial owner	101,139,430	–	101,139,430 (L)(a)	30.94
Mr. Leung	Interest of controlled corporation	61,365,200	–	61,365,200 (L)(b)	18.77
Hong Kong China Development Holdings Limited	Interest of controlled corporation	61,365,200	–	61,365,200 (L)(b)	18.77
Nielsen Limited	Beneficial owner	61,365,200	–	61,365,200 (L)(b)	18.77
Pengana Asia Special Events Master Fund	Investment Manager	17,662,000	–	17,662,000 (L)(c)	5.40
Deutsche Bank Aktiengesellschaft	Beneficial owner	70,000	–	17,116,000 (L)(d)	5.24
	Person having a security interest in shares	17,046,000	–		
	Beneficial owner	–	70,000	70,000 (S)(d)	0.02

(L) denotes long position

(S) denotes short position

*Notes:*

- (a) Ms. Lau was the beneficial owner of 16,404,000 Shares and was deemed to be interested in 22,764,000 Shares through interests of her spouse, Mr. Poon. Mr. Poon was also deemed to be interested in 101,139,430 Shares which were held through Mime.
- (b) Nielsen Limited held 61,365,200 Shares and Mr. Leung was deemed to be interested in such Shares since he owned 100% interest in Hong Kong China Development Holdings Limited, which is the sole beneficial owner of all the issued shares of Nielsen Limited.
- (c) Pengana Asia Special Events Master Fund is managed by its investment manager, Pengana Capital Limited which is an independent third party to the Company and the Controlling Shareholders. The information of long position of Pengana Asia Special Events Master Fund is based on the disclosure of dealings pursuant to Rule 22 of the Takeovers Code dated 5 October 2016.
- (d) The information of long and short positions of Deutsche Bank Aktiengesellschaft is based on the notice of disclosure of interests filed on 3 October 2016.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

**(e) Disclosure of interests of the Offerors**

As at the Latest Practicable Date, save for the Irrevocable Undertakings, the Offerors their ultimate beneficial owners or parties acting in concert with them are not interested in and have not dealt in any other shares, underlying shares, debentures or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

The Offerors intend to finance the entire consideration payable under the Offers by way of cash advanced from their respective ultimate beneficial owners. Mr. Zhai Jun, being the sole shareholder of Star Fly, has advanced a shareholder's loan representing 50% of the total consideration for the Offers to Star Fly to satisfy its obligations under the Offers; Mr. Gao Xiaorui, who is the legal and beneficial owner as to 90% of the issued share capital of Fresh Choice and Mr. Wu Zhenlong, who is the legal and beneficial owner as to 10% of the issued share capital of Fresh Choice, have each advanced shareholder's loan representing 45% and 5% respectively of the total consideration for the Offers to Fresh Choice to satisfy its obligations under the Offers.

As at the Latest Practicable Date, unless otherwise required by the Listing Rules with regard to the public float requirements, there was no agreement, arrangement or understanding that the securities acquired in pursuance of the Offers would be transferred, charged or pledged to any other persons.

**5. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALING**

As at the Latest Practicable Date:

- (a) none of the Offerors, the directors of the Offerors or any parties acting in concert with them owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company and save as provided under the Irrevocable Undertakings, none of the Offerors, the directors of the Offerors or any parties acting in concert with them had dealt for value in any such securities during the Relevant Period;

- (b) save for the Irrevocable Undertakings, no person had irrevocably committed himself to accept or reject the Offers;
- (c) none of the Offerors or any of the parties acting in concert with them had entered into any arrangement (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any other persons;
- (d) none of the Offerors, the Offerors' directors or any of the parties acting in concert with them had borrowed or lent any Shares or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (e) save for the Irrevocable Undertakings, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offerors or any party acting in concert with them and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Offers;
- (f) there was no agreement or arrangement to which the Offerors are a party which relates to circumstances in which they may or may not invoke or seek to invoke a pre-condition or a condition to the Offers;
- (g) there was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exists between the Offerors, or any party acting in concert with them, and any other person;
- (h) the Company did not have any beneficial interest in the shares, convertible securities, warrants, options and derivatives of the Offerors, and the Company had not dealt for value in any shares, convertible securities, warrants, options or derivatives of the Offerors during the Relevant Period;
- (i) none of the Directors had any interests in any shares, convertible securities, warrants, options or other derivatives of the Offerors, and none of the Directors had dealt for value in any shares, convertible securities, warrants, options or other derivatives of the Offerors during the Relevant Period;
- (j) none of the Directors had dealt for value in any shares, convertible securities, warrants, options or other derivatives of the Company during the Relevant Period, save for exercise of Options with details set out below:

<b>Name of director</b>	<b>Date of transactions</b>	<b>No. of Shares issued</b>	<b>Exercise price per Option</b>
Mr. Poon ( <i>Note</i> )	1 February 2016	2,986,000	HK\$0.77
Mr. Poon	18 February 2016	3,200,000	HK\$0.77
Mr. Poon	29 February 2016	2,400,000	HK\$0.77

*Note:* On 1 February 2016, Ms. Lau converted 2,986,000 Options into 2,986,000 Shares. Mr. Poon was deemed to be interested in these Shares through interests of his spouse.

- (k) none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of a subsidiary of the Company; or (iii) any advisers to the Company (as specified in class (2) of the definition of “associate” under the Takeovers Code) had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company and none of them had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (l) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and no such person had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (m) no Shares, convertible securities, warrants, options or derivatives issued by the Company were managed on a discretionary basis by any fund managers connected with the Company and none of them had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (n) no Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company had been borrowed or lent by any of the Directors or by the Company;
- (o) no benefit (other than statutory compensation) had been or would be given to any Director as compensation for loss of office in any members of the Group or otherwise in connection with the Offers;
- (p) save for the Irrevocable Undertakings there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers; and
- (q) there was no material contract entered into by the Offerors in which any Director has a material personal interest.

## 6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, the Company has entered into the service agreements below with the following Directors:

Mr. Poon has entered into a service contract with the Company dated 30 September 1992. The service contract for Mr. Poon with the Company shall continue to be effective unless terminated by three months' notice in writing served by either party on the other or payment in lieu. On 1 May 2016, the fixed remuneration of Mr. Poon has been amended from HK\$1,440,000 per annum to HK\$2,400,000 per annum. The variable remuneration (or performance bonus) remains unchanged at 3.00% on the Group's consolidated net profits, which is determined by the Board based on the remuneration policy of the Company, with reference to his duties and responsibilities with the Group and the prevailing market conditions (subject to review by the remuneration committee of the Company from time to time).

Dr. Poon Wai Tsun, William (“**Dr. Poon**”) has entered into a service contract with the Company dated 6 July 2010. The service contract for Dr. Poon with the Company shall continue to be effective unless terminated by one month’s notice in writing served by either party on the other or payment in lieu. On 1 May 2016, the fixed remuneration of Dr. Poon has been amended from HK\$780,000 per annum to HK\$1,020,000 per annum. The variable remuneration (or performance bonus) remains unchanged at 1.25% on the Group’s consolidated net profits, which is determined by the Board based on the remuneration policy of the Company, with reference to his duties and responsibilities with the Group and the prevailing market conditions (subject to review by the remuneration committee of the Company from time to time).

Mr. Poon Wai Yip, Albert (“**Mr. Albert Poon**”) has entered into a service contract with the Company dated 6 December 2011. The service contract for Mr. Albert Poon with the Company shall continue to be effective unless terminated by one month’s notice in writing served by either party on the other or payment in lieu. On 1 May 2016, the fixed remuneration of Mr. Albert Poon has been amended from HK\$756,000 per annum to HK\$996,000 per annum. The variable remuneration (or performance bonus) remains unchanged at 1.25% on the Group’s consolidated net profits, which is determined by the Board based on the remuneration policy of the Company, with reference to his duties and responsibilities with the Group and the prevailing market conditions (subject to review by the remuneration committee of the Company from time to time).

Furthermore, the Company has no formal letters of appointment for the independent non-executive directors, namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, as all of them have been serving as Directors for a considerable period of time, a clear understanding of the terms and conditions of their appointment already exists between the Company and the said Directors, and so there is no written record of the same. Each of the said Directors are entitled to a fix remuneration of HK\$50,000 per annum and are not entitled to any variable remuneration.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group or the associated companies of the Company which:

- (i) have been entered into or amended (including both continuous and fixed term contracts) within six months prior to the commencement of the Offer Period on 1 June 2016;
- (ii) are continuous contracts with a notice period of twelve months or more: or
- (iii) are fixed term contacts with more than twelve months to run irrespective of the notice period.

None of the Directors will be or has been given any benefits (save for any statutory compensation required under appropriate laws) as compensation for loss of office or otherwise in connection with the Offers.

## 7. MATERIAL CONTRACTS

As at the Latest Practicable Date, the Group has not entered into any material contract (being a contract not entered into in the ordinary course of business carried on or intended to be carried on by the Group) within the two years immediately preceding the commencement of the Offer Period, and up to and including the Latest Practicable Date, which is or may be material.

## 8. LITIGATION

A subsidiary of the Group (the “**Subsidiary**”) has served a writ and claimed against three former employees of the Subsidiary (the “**Defendants**”) on 19 December 2003. The Subsidiary claimed that the Defendants as former employees of the Subsidiary have breached their contractual and fiduciary duties owed to the Subsidiary. In September 2004, it was ordered by the court (the “**Order**”) that the Defendants’ application for further and better particulars of the statement of claim be dismissed. No documents have been filed with the High Court since the filing of the Order on 11 October 2004. The Defendants commenced proceedings in the Labour Tribunal against the Subsidiary, which was later transferred to the High Court, pursuant to which the Defendants sought to recover wages and other payments amounting to approximately HK\$419,000 together with interest and costs allegedly payable upon their termination of employment with the Subsidiary. The Subsidiary have subsequently filed a defense and counterclaim in September 2004. No documents have been filed with the High Court since 27 September 2004. The Directors take the views that the amount of their claims against the Defendants will exceed the Defendants’ counterclaims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

## 9. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the names and qualifications of the experts who have been named in this Composite Document or have given opinions or advice which are contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
Yu Ming	a licensed corporation permitted to carry out Types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
INCU	a licensed corporation permitted to carry out Types 6 (advising on corporate finance) regulated activities under the SFO
Astrum	a licensed corporation permitted to carry out Types 1 (dealing in securities), 2 (dealing in futures contracts), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO

Each of Yu Ming, INCU and Astrum has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion in this Composite Document of its opinions, advices, letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Yu Ming, INCU and Astrum had any shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of Yu Ming, INCU and Astrum had any direct or indirect interest in any assets which have been, since 31 December 2015 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

#### **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection (i) on the website of the Company ([www.perfectech.com.hk](http://www.perfectech.com.hk)); (ii) on the website of the SFC ([www.sfc.hk](http://www.sfc.hk)) and; (iii) during normal business hours from 9a.m. to 5p.m. (other than Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company at Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong, from the date of this Composite Document up to and including the Closing Date or the date on which the Offers lapse or are withdrawn (whichever is earlier):

- (a) the memorandum of association and new bye-laws of the Company;
- (b) the memorandum and articles of association of the Offerors;
- (c) the annual reports of the Company for the year ended 31 December 2014 and the year ended 31 December 2015;
- (d) the interim report of the Company for the six months ended 30 June 2016;
- (e) the letter from Yu Ming, the text of which is set out on pages 6 to 16 of this Composite Document;
- (f) the letter from the Board, the text of which is set out on pages 17 to 25 of this Composite Document;
- (g) the letter from the Independent Board Committee to the Independent Shareholders and the Independent Optionholders, the text of which is set out on pages 26 to 27 of this Composite Document;
- (h) the letter from Astrum to the Independent Board Committee, the Independent Shareholders and the Independent Optionholders, the text of which is set out on pages 28 to 49 of this Composite Document;
- (i) the written consents referred to under the paragraph headed “Qualifications and Consents of Experts” in this Appendix III;
- (j) the service contracts referred to in under the paragraph headed “Directors’ Service Contracts” in this Appendix III;

- (k) the Poons Irrevocable Undertakings; and
- (l) the Leungs Irrevocable Undertakings.

#### 11. MISCELLANEOUS

- (a) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its head office and principal place of business in Hong Kong is situated at Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong.
- (b) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Standard Limited, which is situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) Star Fly is an investment holding company wholly owned by Mr. Zhai Jun. Mr. Zhai Jun is the sole director of Star Fly.
- (d) Fresh Choice is an investment holding company owned as to 90% by Mr. Gao Xiaorui and 10% by Mr. Wu Zhenlong. Mr. Gao Xiaorui is the sole director of Fresh Choice.
- (e) The principal members of the Offerors' concert group are the Offerors, Mr. Zhai Jun, Mr. Gao Xiaorui and Mr. Wu Zhenlong.
- (f) The registered office of Star Fly is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The correspondence address of Star Fly is situated at Unit 1504, 15/F, Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong.
- (g) The registered office of Fresh Choice is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The correspondence address of Fresh Choice is situated at Rooms 1903-6, 19/F., Hing Yip Commercial Centre, 272-284 Des Voeux Road, Central, Hong Kong.
- (h) The registered office of Yu Ming is situated at Room 1801, 18/F, Allied Kajima Building, 138 Gloucester Road, Wanchai Hong Kong.
- (i) The registered office of INCU is situated at Unit 1701, 17/F, Wings Building, 110-116 Queen's Road Central, Central, Hong Kong.
- (j) The registered office of Astrum is situated at Room 2704, 27/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong.
- (k) The English text of this Composite Document and the accompanying Forms of Acceptance shall prevail over their respective Chinese text in case of inconsistency.