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## PERFECTECH INTERNATIONAL HOLDINGS LIMITED

(威發國際集團有限公司)\*

(the “Company”)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00765)

### ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

#### RESULTS

The board of directors (the “Board”) of Perfectech International Holdings Limited (the “Company”) hereby announces that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2016 and the comparative figures for 2015 were as follows:

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

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000 (Represented)
Revenue	3 & 4	237,069	198,088
Cost of sales		<u>(167,966)</u>	<u>(153,149)</u>
Gross profit		69,103	44,939
Other income, gains and losses	5	13,852	(4,005)
Distribution costs		(4,132)	(4,674)
Gain from changes in fair value of an investment property		1,300	400
Administrative expenses		(42,680)	(46,737)
Finance costs	6	<u>(575)</u>	<u>(631)</u>
Profit (loss) before tax	7	36,868	(10,708)
Income tax expenses	8	<u>(6,206)</u>	<u>(2,668)</u>
Profit (loss) for the year		<u>30,662</u>	<u>(13,376)</u>
Other comprehensive expenses, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of overseas operations		<u>(3,209)</u>	<u>(1,287)</u>
Total comprehensive income (expenses) for the year		<u>27,453</u>	<u>(14,663)</u>

\* for identification purpose only

	<i>Notes</i>	<b>2016</b> <b><i>HK\$'000</i></b>	2015 <i>HK\$'000</i> (Represented)
Profit (loss) for the year attributable to:			
Owners of the Company		<b>23,272</b>	(16,090)
Non-controlling interests		<u>7,390</u>	<u>2,714</u>
Profit (loss) for the year		<u><b>30,662</b></u>	<u>(13,376)</u>
Total comprehensive income (expenses) for the year attributable to:			
Owners of the Company		<b>20,396</b>	(17,105)
Non-controlling interests		<u>7,057</u>	<u>2,442</u>
Total comprehensive income (expenses) for the year		<u><b>27,453</b></u>	<u>(14,663)</u>
Earnings (loss) per share	10		
Basic		<u><b>7.14 Cents</b></u>	<u>(5.20) Cents</u>
Diluted		<u><b>7.11 Cents</b></u>	<u>(5.20) Cents</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	<b>2016</b> <b>HK\$'000</b>	2015 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>59,514</b>	62,418
Investment property		<b>32,700</b>	31,400
Deferred tax assets		<b>7,492</b>	7,137
		<u><b>99,706</b></u>	<u>100,955</u>
<b>CURRENT ASSETS</b>			
Inventories		<b>20,821</b>	17,145
Trade and other receivables	11	<b>28,945</b>	23,974
Tax recoverable		<b>398</b>	3,443
Held for trading investments		—	38,937
Derivative financial instruments		—	244
Financial assets designated as at fair value through profit or loss		—	938
Pledged bank deposits		<b>47,223</b>	1,119
Bank balances and cash		<b>93,136</b>	66,286
		<u><b>190,523</b></u>	<u>152,086</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	<b>36,053</b>	21,511
Derivative financial instruments		—	2,646
Tax liabilities		<b>2,982</b>	3,885
Bank borrowings		<b>23,089</b>	26,106
		<u><b>62,124</b></u>	<u>54,148</u>
<b>NET CURRENT ASSETS</b>		<u><b>128,399</b></u>	<u>97,938</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>228,105</b></u>	<u>198,893</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>50</b>	198
<b>NET ASSETS</b>		<u><b>228,055</b></u>	<u>198,695</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>32,692</b>	31,834
Reserves		<b>173,951</b>	151,153
Equity attributable to owners of the Company		<b>206,643</b>	182,987
Non-controlling interests		<b>21,412</b>	15,708
<b>TOTAL EQUITY</b>		<u><b>228,055</b></u>	<u>198,695</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 1. BASIS OF PREPARATION

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

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

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

The consolidated financial statements are presented in Hong Kong dollars, 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 consolidated 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 2015, 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 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 HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKFRSs	Annual Improvements 2012–2014 Cycle

### 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:

HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>2</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> The original effective date has been deferred to a date yet to be determined

The Directors anticipate that the application of new and amendments to HKFRSs will have no material impact on the results and the financial position of the Company.

### 3. 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.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Novelties and decoration products	23,139	36,154
Toy products	<u>213,930</u>	<u>161,934</u>
	<u><u>237,069</u></u>	<u><u>198,088</u></u>

### 4. SEGMENTS REPORTING

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

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

#### 2016

	Novelties and decoration products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>			
External sales and total revenue	<u>23,139</u>	<u>213,930</u>	<u>237,069</u>
<b>RESULT</b>			
Segment result	<u>(7,332)</u>	<u>46,989</u>	39,657
Gain from investments			5,708
Gain from changes in fair value of an investment property			1,300
Unallocated corporate expenses			(9,222)
Finance costs			<u>(575)</u>
Profit before tax			36,868
Income tax expenses			<u>(6,206)</u>
Profit for the year			<u><u>30,662</u></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	44,510	128,915	173,425
Unallocated corporate assets			<u>116,804</u>
Consolidated total assets			<u><u>290,229</u></u>
<b>LIABILITIES</b>			
Segment liabilities	12,897	34,819	47,716
Unallocated corporate liabilities			<u>14,458</u>
Consolidated total liabilities			<u><u>62,174</u></u>

	Novelties and decoration products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Additions of property, plant and equipment	1,089	5,937	—	7,026
Depreciation and amortisation	1,033	5,333	1,615	7,981
Interest income	<u>32</u>	<u>19</u>	<u>28</u>	<u>79</u>

## 2015

	Novelties and decoration products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>			
External sales and total revenue		<u>36,154</u>	<u>161,934</u>
			<u>198,088</u>
<b>RESULT</b>			
Segment result		<u>(5,099)</u>	<u>14,376</u>
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><u>(13,376)</u></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	30,549	92,646	123,195
Unallocated corporate assets			<u>129,846</u>
Consolidated total assets			<u><u>253,041</u></u>
<b>LIABILITIES</b>			
Segment liabilities	12,549	20,353	32,902
Unallocated corporate liabilities			<u>21,444</u>
Consolidated total liabilities			<u><u>54,346</u></u>

	Novelties and decoration products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Others <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	<u>35</u>	<u>17</u>	<u>47</u>	<u>99</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 expenses. 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, and land and building held for own use. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and
- all liabilities are allocated to operating segments other than other financial liabilities. 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:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Sales revenue by geographical market:		
Hong Kong	8,002	10,567
Europe	53,338	40,602
America	90,194	68,775
Asia (other than Hong Kong)	82,480	76,819
Others	3,055	1,325
	<u>237,069</u>	<u>198,088</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:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Hong Kong	214,934	176,073	547	1,299
The People's Republic of China (the "PRC")	75,295	76,968	6,479	4,515
	<u>290,229</u>	<u>253,041</u>	<u>7,026</u>	<u>5,814</u>

## Information about major customer

Included in revenue arising from sales of toy products of approximately HK\$213,930,000 (2015: HK\$161,934,000) are revenue of approximately HK\$207,136,000 (2015: HK\$154,036,000) which arose from sales to the Group's largest customer, representing 87% (2015: 78%) of the total revenue.



## 5. OTHER INCOME, GAINS AND LOSSES

**2016**                      2015  
**HK\$'000**                      **HK\$'000**  
(Represented)

Included in other income, gains and losses are:

Bad debt recovered	—	335
Bond interest income	<b>48</b>	—
Dividend income from held for trading investments	<b>1,651</b>	1,558
Interest income	<b>79</b>	99
Rental income	<b>610</b>	299
Scrap sales	<b>1,795</b>	1,766
Gain on disposal of property, plant and equipment	<b>234</b>	2,715
Gain on disposal of an investment property	—	800
Gain on redemption of financial assets designated as at fair value through profit or loss	—	41
Loss from changes in fair value of held for trading investments	—	(13,298)
Gain from changes in fair value of derivative financial instruments	<b>2,402</b>	1,709
Loss from changes in fair value of financial assets designated as at fair value through profit or loss	—	(44)
Gain (loss) on disposal of held for trading investments	<b>1,604</b>	(937)
Written-off of trade payables	<b>119</b>	—
Net foreign exchange gains (losses)	<b>3,294</b>	(163)
Others	<b>2,016</b>	1,115
	<u><b>13,852</b></u>	<u><b>(4,005)</b></u>

## 6. FINANCE COSTS

**2016**                      2015  
**HK\$'000**                      **HK\$'000**

Interest on:

Bank borrowings wholly repayable within five years	<u><b>575</b></u>	<u><b>631</b></u>
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## 7. PROFIT (LOSS) BEFORE TAX

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>

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

Auditor's remuneration	1,050	1,010
Bad debt recovered	—	(335)
Cost of inventories recognised as an expense	63,590	54,101
Depreciation of property, plant and equipment	7,981	7,817
Net foreign exchange (gains) losses	(3,294)	163
Operating lease rentals in respect of rented premises	5,700	5,860
Gross rental income from investment property	(610)	(299)
Less:		
Direct operating expenses incurred for investment property that generated rental income during the year	101	44
Direct operating expenses incurred for investment property that did not generated rental income during the year	—	12
	(509)	(243)
Write down of inventories	13	—
Share-based payment expenses	—	10,909
Staff costs (including Directors' emoluments)	88,538	85,358

## 8. INCOME TAX EXPENSES

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>

Current tax:		
Hong Kong Profits Tax	6,894	3,056
PRC Enterprise Income Tax	257	312
	7,151	3,368
(Over) under provision in prior years:		
Hong Kong Profits Tax	(524)	1,867
PRC Enterprise Income Tax	82	50
	(442)	1,917
Deferred tax		
Current year	(503)	(2,617)
Total income tax expenses recognised in profit or loss	6,206	2,668

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 profit (loss) before tax as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit (loss) before tax	<u>36,868</u>	<u>(10,708)</u>
Tax at Hong Kong Profits Tax rate of 16.5%	6,083	(1,767)
Tax effect of income not taxable for tax purposes	(7,150)	(2,332)
Tax effect of expenses not deductible for tax purposes	3,717	2,569
Tax effect of temporary differences not recognised	155	183
Tax effect of tax losses not recognised	2,975	1,941
Utilisation of tax losses not previously recognised	(141)	(164)
(Over) under provision in respect of prior year	(442)	1,917
Effect of different tax rates of subsidiaries operating in the PRC	<u>1,009</u>	<u>321</u>
Tax charge for the year	<u>6,206</u>	<u>2,668</u>

## 9. DIVIDENDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interim, paid — 1.0 HK cent (2015: 1.0 HK cent) per share	3,269	3,184
Final paid — nil for 2015 (2015: 2.0 HK cents per share for 2014)	<u>—</u>	<u>5,989</u>
	<u>3,269</u>	<u>9,173</u>

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil).

## 10. 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 year of approximately HK\$23,272,000 (2015: loss of HK\$16,090,000) and the following data:

	2016	2015
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	325,864,137	309,176,440
Effect of dilutive potential ordinary shares on share options	<u>1,349,884</u>	<u>5,634,887</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u>327,214,021</u>	<u>314,811,327</u>

Diluted loss per share for the year ended 31 December 2015 was 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.

## 11. TRADE AND OTHER RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	29,380	20,789
Less: impairment loss on trade receivables	<u>(6,809)</u>	<u>(6,809)</u>
	<u>22,571</u>	<u>13,980</u>
Other receivables		
Prepayment	1,233	780
Rental, utility and other deposit	1,949	1,108
Cash deposit in broker's account	7	6,423
Sundry debtors and others ( <i>Note a</i> )	<u>3,185</u>	<u>1,683</u>
	<u>6,374</u>	<u>9,994</u>
	<u><u>28,945</u></u>	<u><u>23,974</u></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:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–60 days	22,204	13,891
61–90 days	361	61
91–120 days	—	—
Over 120 days	<u>6</u>	<u>28</u>
	<u><u>22,571</u></u>	<u><u>13,980</u></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>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Overdue by:		
0–60 days	<b>4,105</b>	2,183
61–90 days	<b>306</b>	—
91–120 days	—	28
Over 120 days	<b>6</b>	—
	<u><b>4,417</b></u>	<u>2,211</u>

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	<b>6,809</b>	7,144
Amounts recovered during the year	—	(335)
At 31 December	<u><b>6,809</b></u>	<u>6,809</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 2016 approximate to the corresponding carrying amount.

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Overdue by:		
Over 120 days	<u><b>6,809</b></u>	<u>6,809</u>

## 12. 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:

	<b>2016</b> <b>HK\$'000</b>	2015 <i>HK\$'000</i>
Trade payables		
0–60 days	<b>12,757</b>	6,723
61–90 days	<b>1,755</b>	1,064
91–120 days	<b>150</b>	94
Over 120 days	<b>433</b>	588
	<hr/> <b>15,095</b> <hr/>	<hr/> 8,469 <hr/>
Other payables		
Accrued salary, bonus and commission	<b>8,789</b>	5,633
Deposits received from customers	<b>7,375</b>	3,623
Amount due on share trading account	—	563
Accrued expenses and others	<b>4,794</b>	3,223
	<hr/> <b>20,958</b> <hr/>	<hr/> 13,042 <hr/>
	<hr/> <b>36,053</b> <hr/>	<hr/> 21,511 <hr/>

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 2016 approximate to the corresponding carrying amount.

## **CHAIRMAN'S STATEMENT**

### **RESULTS**

The board (the "Board") of directors of the Company (the "Directors") has resolved to announce the audited consolidated results for the year ended 31 December 2016. Total revenue for the year amounted to approximately HK\$237,069,000 (2015: HK\$198,088,000), representing an increase of about 20%. The profit for the year attributable to owners of the Company stood at approximately HK\$23,272,000 (2015: loss of HK\$16,090,000). Basic earnings per share were approximately 7.14 HK cents (2015: loss of 5.20 HK cents).

### **DIVIDENDS**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil). An interim dividend of 1.0 HK cent per share (2015: 1.0 HK cent per share) was paid on 30 September 2016.

### **CLOSURE OF REGISTER OF MEMBERS**

For the purposes of determining the eligibility of shareholders to attend and vote at the AGM, the Register of Members will be closed from 25 May 2017, Thursday, to 1 June 2017, Thursday (both dates inclusive). During the closure period, no share transfer will be registered. In order to be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong at Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 24 May 2017, Wednesday.

### **BUSINESS REVIEW**

As stated above, the revenue of the Group increased by about 20%, and the toy segment resumed both positive growth and contribution to the Group while the novelty and decoration products segment continued recording a negative growth and negative contribution, details of the performance of the two segments are disclosed in the "Management Discussion and Analysis". Due to the influence of the expectation of rise in interest rate of the US Dollar, Renminbi deflated continuously and gradually during the year lowering the costs of production in the PRC to a certain level.

As the local stock market remains "relatively" stable in the year, the Group recorded a net gain from investments during the year under review. For the year of 2016, the profit of the Group included gain on disposal of held for trading investments of approximately HK\$1,604,000 (2015: loss of HK\$937,000) and gain from changes in fair value of derivative financial instruments of approximately HK\$2,402,000 (2015: HK\$1,709,000). There was no gain or loss from changes in fair value of held for trading investments (2015: loss of HK\$13,298,000) as the Group did not hold any such investments at the year end.

Besides, administrative expenses decreased by about 9% to approximately HK\$42,680,000 (2015: HK\$46,737,000). Such decrease was mainly due to, among others, the fact that there was no share-based payment expenses for the year under review (2015: HK\$10,909,000). On the other hand, distribution costs decreased by about 12% to HK\$4,132,000 (2015: HK\$4,674,000).

Finance costs decreased by about 9% to approximately HK\$575,000 (2015: HK\$631,000) as no further loan was drawn down and there was repayment of loan of HK\$3,017,000 during the year under review.

## **FUTURE PLAN & PROSPECT**

Looking forward to 2017, the global economy seems to be improving, but the management is still aware that risks remain, particularly with respect to political and other uncertainties in Asia, the United States of America and Europe, where our major customers are located. The Group will continue to consolidate its principal business, enhance products portfolio and promote product upgrades to meet the needs of customers and boost market share.

Meanwhile, the Group will also actively identify good merger and acquisition opportunities in order to acquire new business or asset that will bring additional value, synergy effect and new income streams to the Group.

With the joint efforts of all of its employees, the Group endeavors to work well with its customers, business partners and shareholders to maximise its corporate value and deliver promising returns to its shareholders.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **SEGMENTAL RESULTS**

#### **Novelties and decoration**

The revenue of this segment for the year under review showed a further decrease of about 36% to approximately HK\$23,139,000 (2015: HK\$36,154,000), and the segment recorded a loss before interests and tax of approximately HK\$7,332,000 (2015: HK\$5,099,000). Included in the loss of this segment, there was a gain on disposal of property, plant and equipment of approximately HK\$78,000 for the year ended 31 December 2016 (2015: HK\$2,709,000).

#### **Toy products**

The revenue of this segment increased substantially by about 32% to approximately HK\$213,930,000 (2015: HK\$161,934,000), and the segment result therefrom also increased by about 141% to approximately HK\$46,989,000 (2015: HK\$19,475,000). The performance of the segment improved significantly in the second half of the year as revenue increased substantially and its efficiency also improved.

#### **Investments**

To well utilise the available cash on hand, the Group invested in the securities of various listed companies, which were held for trading purposes for capital gain in the value of the securities during the year. As at 31 December 2016, the Group had disposed of all held for trading investments and therefore the fair value of held for trading investments was nil (2015: HK\$38,937,000).

#### **Foreign currency exposure**

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar. As all of its factories are located in the PRC, expenses incurred there are denominated in Renminbi.

Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exposure in this area, and will closely monitor the trend of Renminbi to see if any action is required.

As at 31 December 2016, the Group had not entered into any financial instrument for the hedging of foreign currency.



## **Liquidity and financial resources**

As at 31 December 2016, there were no long-term bank borrowings of the Group (2015: nil), while the short term bank borrowings were approximately HK\$23,089,000 (2015: HK\$26,106,000). The gearing ratio of the Group, measured by total bank borrowings divided by equity attributable to owners of the Company, was 11% (2015: 14%). As at 31 December 2016, the Group had bank balances and cash of approximately HK\$93,136,000 (2015: HK\$66,286,000).

With cash and other current assets as at 31 December 2016 of HK\$190,523,000 (2015: HK\$152,086,000) as well as available banking facilities, the Group had sufficient financial resources to satisfy its commitments and working capital requirements.

## **Net asset value**

The net asset value per share as at 31 December 2016 was approximately HK\$0.63 (2015: HK\$0.57), calculated based on equity attributable to equity holders of the Company of HK\$206,643,000 (2015: HK\$182,987,000) divided by the actual number of shares in issue on that date of 326,923,607 (2015: 318,337,607).

## **Employees and remuneration policies**

As at 31 December 2016, the Group employed approximately 1,110 (2015: 1,130) full time employees. The Group remunerates its employees largely based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

## **Directors' Securities Transactions**

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

Following specific enquiry by the Group, all Directors have confirmed that throughout the year 2016, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

Throughout the year ended 31 December 2016, the Company has adopted the code provisions (the "Code Provisions") set out in the "Corporate Governance Code and Corporate Governance Report" in Appendix 14 (the "Code") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its corporate governance code, and has taken steps to comply with the Code Provisions wherever appropriate.

Throughout the year ended 31 December 2016, the Company has complied with the Code Provisions save for the following deviations:

**Under Code Provision A.2.1, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual.**

*From 1 January 2016 until 28 November 2016*

While the Company did not have the position of chief executive officer, the responsibilities normally assumed by such a role were taken up by the managing director of the company. Mr. Poon Siu Chung was the chairman (the “Chairman”) of the Board and the managing director of the Company (the “Managing Director”). The Board considered that this structure would not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority was ensured by the operations of the Board, which comprised experienced and high caliber individuals who met regularly to discuss issues affecting the operations of the Company. The Board believed that this structure was conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board had full confidence in Mr. Poon Siu Chung and believed that having Mr. Poon Siu Chung performing the roles of Chairman and Managing Director was beneficial to the business prospects of the Company.

*With effect from 28 November 2016*

After the resignation of Mr. Poon Siu Chung as the Chairman and the Managing Director, Mr. Gao Xiaorui has been appointed as a non-executive Director and the Chairman with effect from 28 November 2016. Since then, the responsibilities of a chief executive have been assumed by the executive Directors, namely Ms. Xie Yinuo and Mr. Poon Wai Yip, Albert. The roles of the Chairman and the chief executive officer have therefore been separate and have not been performed by the same individual.

**Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.**

The non-executive Director, Mr. Gao Xiaorui and independent non-executive Directors, Mr. Zhang Shang, Mr. Lau Shu Yan and Mr. Xie Xiaohong (all appointed with effect from 28 November 2016), did not enter into any letter of appointment for a specific term with the Company at the time of appointment.

Nevertheless, each of the said Directors entered into a letter of appointment with the Company on 29 December 2016, pursuant to such letter the specific term of their appointment would be three years from 28 November 2016. As such, the relevant code provision has been complied with since then.

**Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.**

Due to other pre-arranged business commitments which must be attended to by him, Mr. Yip Chi Hung, being the independent non-executive Director of the Company, was not present at the annual general meeting of the Company held on 31 May 2016.

The Company had appropriately arranged other independent non-executive Directors to attend the said annual general meeting to ensure an effective communication with the shareholders and therefore balanced understanding of the views of the shareholders would not be impaired.

**Under Code Provision D.1.4, all directors should clearly understand delegation arrangements in place, and the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.**

The Company had no formal letters of appointment for (i) the independent non-executive Directors, namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David (all of them resigned with effect from 28 November 2016) and (ii) all the Directors appointed with effect from 28 November 2016 (namely Ms. Xie Yinuo, Mr. Gao Xiaorui, Mr. Zhang Shang, Mr. Lau Shu Yan and Mr. Xie Xiaohong) at the time of appointment (nevertheless, each of Mr. Gao Xiaorui, Mr. Zhang Shang, Mr. Lau Shu Yan and Mr. Xie Xiaohong entered into a letter of appointment with the Company on 29 December 2016).

It was because the management of the Company is of the view that the Directors clearly understand the appointment arrangement in place. In any event, all Directors, including those without a letter of appointment, shall be subject to retirement by rotation in the manner prescribed under the by-laws of the Company and on re-election of the retiring Directors, shareholders are given information that is reasonably necessary for them to make an informed decision on the reappointment of the relevant Directors. Besides, all Directors are required to comply with the requirements under statutes and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies. In this regard, the Company is of the view that such requirements are sufficient to meet the underlying objectives of the relevant code provision.

**Under Code Provision F.1.1, the company secretary should be an employee of the Company and have day-to-day knowledge of the Company's affairs.**

The former company secretaries of the Company, Ms. Pang Siu Yin (resigned with effect from 25 August 2016) and Ms. Cho Yi Ping (appointed with effect from 25 August 2016 and resigned with effect from 23 December 2016) had been the partners of the Company's long-term legal adviser, Cheung Tong & Rosa Solicitors and were familiar with the operations and the management of the Group. They also possessed relevant expertise and experience.

To assist in their day-to-day understanding of the Company's affairs, the Company had assigned Mr. Poon Wai Yip, Albert, an executive Director of the Company, and Mr. Yuen Che Wai, Victor, the then financial controller of the Company, as the contact persons with them, so that information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) could be speedily delivered to Ms. Pang Siu Yin and Ms. Cho Yi Ping through the contact persons assigned.

The current company secretary of the Company, Mr. Li Shu Pai (appointed with effect from 23 December 2016), is the chief financial officer and an employee of the Company.

## **AUDIT COMMITTEE**

The Company has established an audit committee which comprises all the independent non-executive Directors ("INEDs"), namely Mr. Zhang Shang, Mr. Xie Xiaohong and Mr. Lau Shu Yan (who is also the chairman of the committee).

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group, and matters related to risk management and internal controls systems and financial reporting, and has reviewed the audited financial statements for the year ended 31 December 2016 of the Company now reported on.

## **SCOPE OF WORK OF MESSRS. HLM CPA LIMITED**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this announcement have been agreed by the Group's auditor, Messrs. HLM CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. HLM CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagement or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. HLM CPA Limited in this announcement.

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

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

## **APPRECIATION**

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

On behalf of the Board  
**Gao Xiaorui**  
*Chairman*

Hong Kong, 30 March 2017

*As at the date of this announcement, the Board is composed of Ms. Xie Yinuo and Mr. Poon Wai Yip, Albert as executive Directors, Mr. Gao Xiaorui as non-executive Director and Mr. Zhang Shang, Mr. Lau Shu Yan and Mr. Xie Xiaohong as independent non-executive Directors.*