

Perfectech

# Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 765



## **BOARD OF DIRECTORS**

### **Executive Directors:**

Ms. Xie Yinuo

Mr. Poon Wai Yip, Albert

### **Non-executive Director:**

Mr. Gao Xiaorui (*Chairman*)

### **Independent Non-executive Directors:**

Mr. Zhang Shang

Mr. Lau Shu Yan

Mr. Xie Xiaohong

## **COMPANY SECRETARY**

Mr. Li Shu Pai

## **AUDITOR**

HLM CPA Limited

*Certified Public Accountants*

Hong Kong

## **LEGAL ADVISER**

Cheung Tong & Rosa Solicitors

## **AUTHORISED REPRESENTATIVE**

Ms. Xie Yinuo

Mr. Li Shu Pai

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Units C & D, 9/F

Sing Teck Factory Building

44 Wong Chuk Hang Road

Aberdeen

Hong Kong

## **PRINCIPAL BANKERS**

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

## **PRINCIPAL SHARE REGISTRAR**

MUFG Fund Services (Bermuda) Limited

The Belvedere Building

69 Pitts Bay Road

Pembroke HM08

Bermuda

## **HONG KONG BRANCH SHARE REGISTRAR**

Tricor Standard Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

## **REGISTERED OFFICE**

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

## **WEBSITE**

[www.perfectech.com.hk](http://www.perfectech.com.hk)

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

		<b>(Unaudited)</b>	
		<b>For the six months ended 30 June</b>	
		<b>2017</b>	2016
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
Revenue	2 & 3	<b>91,876</b>	87,355
Cost of sales		<b>(68,009)</b>	(66,837)
		<hr/>	
Gross profit		<b>23,867</b>	20,518
Other income, gains and losses	4	<b>1,051</b>	3,121
Distribution costs		<b>(1,772)</b>	(1,906)
Administrative expenses		<b>(21,863)</b>	(17,719)
Finance costs		<b>(35)</b>	(289)
		<hr/>	
Profit before tax	5	<b>1,248</b>	3,725
Income tax expenses	6	<b>(3,140)</b>	(315)
		<hr/>	
(Loss) profit for the period		<b>(1,892)</b>	3,410
		<hr/>	
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		<b>(368)</b>	(526)
		<hr/>	
Total comprehensive (expenses) income for the period		<b>(2,260)</b>	2,884
		<hr/>	
(Loss) profit for the period attributable to:			
Owners of the Company		<b>(2,767)</b>	1,565
Non-controlling interests		<b>875</b>	1,845
		<hr/>	
(Loss) profit for the period		<b>(1,892)</b>	3,410
		<hr/>	

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

*For the six months ended 30 June 2017*

		<b>(Unaudited)</b>	
		<b>For the six months</b>	
		<b>ended 30 June</b>	
		<b>2017</b>	2016
<i>Notes</i>		<b>HK\$'000</b>	HK\$'000
Total comprehensive (expenses) income for the period attributable to:			
	Owners of the Company	<b>(3,094)</b>	1,100
	Non-controlling interests	<b>834</b>	1,784
Total comprehensive (expenses) income for the period		<b>(2,260)</b>	2,884
(Loss) earnings per share	8	<b>HK cent</b>	<i>HK cent</i>
	Basic	<b>(0.85)</b>	0.48
	Diluted	<b>(0.85)</b>	0.48

# Condensed Consolidated Statement of Financial Position

At 30 June 2017

		(Unaudited) 30 June 2017 HK\$'000	(Audited) 31 December 2016 HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	<b>57,499</b>	59,514
Investment property		<b>32,700</b>	32,700
Deferred tax assets		<b>7,885</b>	7,492
		<b>98,084</b>	99,706
<b>CURRENT ASSETS</b>			
Inventories		<b>22,229</b>	20,821
Trade and other receivables	10	<b>30,099</b>	28,945
Tax recoverable		<b>246</b>	398
Pledged bank deposits		—	47,223
Bank balances and cash		<b>106,624</b>	93,136
		<b>159,198</b>	190,523
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	<b>28,252</b>	36,053
Tax liabilities		<b>6,701</b>	2,982
Bank borrowings	12	—	23,089
		<b>34,953</b>	62,124

# Condensed Consolidated Statement of Financial Position (Continued)

*At 30 June 2017*

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
<b>NET CURRENT ASSETS</b>	<b>124,245</b>	128,399
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>222,329</b>	228,105
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	<b>128</b>	50
<b>NET ASSETS</b>	<b>222,201</b>	228,055
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>32,692</b>	32,692
Reserves	<b>170,857</b>	173,951
Equity attributable to owners of the Company	<b>203,549</b>	206,643
Non-controlling interests	<b>18,652</b>	21,412
<b>TOTAL EQUITY</b>	<b>222,201</b>	228,055

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	(Unaudited)								
	Share capital	Share premium	Capital redemption reserve	Share option reserve	Translation reserve	Retained profits	Equity attributable to owners of the Company	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	32,692	118,895	10,337	—	(2,627)	47,346	206,643	21,412	228,055
Loss for the period	—	—	—	—	—	(2,767)	(2,767)	875	(1,892)
Other comprehensive expenses for the period									
Exchange difference on translation of overseas operations	—	—	—	—	(327)	—	(327)	(41)	(368)
Total comprehensive (expenses) income for the period	—	—	—	—	(327)	(2,767)	(3,094)	834	(2,260)
Dividends	—	—	—	—	—	—	—	(3,594)	(3,594)
At 30 June 2017	32,692	118,895	10,337	—	(2,954)	44,579	203,549	18,652	222,201
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 2016	32,692	118,896	10,337	7,618	(216)	21,290	190,617	16,139	206,756

# Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2017*

	<b>(Unaudited)</b>	
	<b>For the six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(4,832)</b>	5,073
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>45,406</b>	(18,147)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(26,718)</b>	3,388
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>13,856</b>	(9,686)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>93,136</b>	66,286
Effect of change in foreign exchange rates	<b>(368)</b>	(526)
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>106,624</b>	56,074
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	<b>106,624</b>	56,074



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

The unaudited condensed consolidated 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 unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties that are measured at fair value at the end of each reporting period.

The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements of Perfectech International Holdings Limited ("Company") and its subsidiaries ("Group") for the year ended 31 December 2016 except as described below.

In the current period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2017 as follows:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	Disclosure of Interest in Other Entities

The application of these amendments to HKFRSs has had no material impact on the Group's financial performance and positions for the current or prior accounting periods.

The Group has not early adopted any new or revised HKFRSs that have been issued but are not yet effective in the unaudited condensed consolidated financial statements.

## 2. BUSINESS SEGMENTS

For management purposes, the Group is currently organised into two operating segments, namely the 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 segment:

### For the six months ended 30 June 2017 (Unaudited)

	<b>Novelties and decoration products HK\$'000</b>	<b>Toy products HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>REVENUE</b>			
External sales and total revenue	<b>5,492</b>	<b>86,384</b>	<b>91,876</b>
<b>RESULT</b>			
Segment results	<b>(4,337)</b>	<b>8,872</b>	<b>4,535</b>
Unallocated corporate expenses			<b>(3,252)</b>
Finance costs			<b>(35)</b>
Profit before tax			<b>1,248</b>
Income tax expenses			<b>(3,140)</b>
Loss for the period			<b>(1,892)</b>

## 2. BUSINESS SEGMENTS (CONTINUED)

At 30 June 2017 (Unaudited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>			
Segment assets	44,394	132,816	177,210
Unallocated corporate assets			80,072
			<hr/>
Consolidated total assets			257,282
			<hr/>
<b>LIABILITIES</b>			
Segment liabilities	5,200	29,225	34,425
Unallocated corporate liabilities			656
			<hr/>
Consolidated total liabilities			35,081
			<hr/>

## 2. BUSINESS SEGMENTS (CONTINUED)

### Other Information

#### *For the six months ended 30 June 2017 (Unaudited)*

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	265	1,641	23	1,929
Depreciation and amortisation	476	2,720	693	3,889
Interest income	8	74	5	87

#### *For the six months ended 30 June 2016 (Unaudited)*

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>			
External sales and total revenue	7,542	79,813	87,355
<b>RESULT</b>			
Segment results	(4,735)	10,975	6,240
Gain from investments			876
Unallocated corporate expenses			(3,102)
Finance costs			(289)
Profit before tax			3,725
Income tax expenses			(315)
Profit for the period			3,410

## 2. BUSINESS SEGMENTS (CONTINUED)

### Other Information (Continued)

#### At 31 December 2016 (Audited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>			
Segment assets	44,510	128,915	173,425
Unallocated corporate assets			116,804
Consolidated total assets			290,229
<b>LIABILITIES</b>			
Segment liabilities	12,897	34,819	47,716
Unallocated corporate liabilities			14,458
Consolidated total liabilities			62,174

#### For the six months ended 30 June 2016 (Unaudited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	407	359	—	766
Depreciation and amortisation	533	2,575	832	3,940
Interest income	10	9	18	37

### Information about major customer

Revenue from sales of toy products of approximately HK\$86,384,000 (2016: HK\$79,813,000) included sales to the Group's largest customer of approximately HK\$82,505,000 (2016: HK\$75,845,000).

### 3. GEOGRAPHICAL SEGMENTS

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

	<b>(Unaudited)</b>	
	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Sales revenue by geographical market:		
Hong Kong	<b>4,851</b>	2,314
Europe	<b>20,035</b>	20,802
America	<b>16,633</b>	26,446
Asia (other than Hong Kong)	<b>49,877</b>	35,841
Others	<b>480</b>	1,952
	<b>91,876</b>	87,355

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

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>189,465</b>	214,934
The People's Republic of China (the "PRC")	<b>67,817</b>	75,295
	<b>257,282</b>	290,229

### 3. GEOGRAPHICAL SEGMENTS (CONTINUED)

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	
	2017	2016
	HK\$'000	HK\$'000
Hong Kong	23	36
The PRC	1,906	730
	<b>1,929</b>	766

### 4. OTHER INCOME, GAINS AND LOSSES

	(Unaudited)	
	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Bad debts recovered	—	1
Dividend income from held for trading investments	—	1,366
Interest income	87	37
Rental income	236	306
Scrap sales	105	694
(Loss) gain on disposal of property, plant and equipment	(30)	160
Loss from changes in fair value of held for trading investments	—	(2,634)
Gain from changes in fair value of derivative financial instruments	—	1,778
Gain on disposal of held for trading investments	—	365
Net foreign exchange (losses) gains	(399)	400
Others	1,052	648
	<b>1,051</b>	3,121

## 5. PROFIT BEFORE TAX

Profit before tax has been arrived after charging:

	<b>(Unaudited)</b>	
	<b>For the six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<b>3,889</b>	3,940
	<b>3,889</b>	3,940

## 6. INCOME TAX EXPENSES

	<b>(Unaudited)</b>	
	<b>For the six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Current tax:		
Hong Kong Profits Tax	<b>(969)</b>	(1,412)
PRC Enterprise Income tax	—	(53)
	<b>(969)</b>	(1,465)
Underprovision in prior years:		
Hong Kong Profits Tax	<b>(2,334)</b>	—
PRC Enterprise Income tax	<b>(152)</b>	(82)
	<b>(2,486)</b>	(82)
Deferred tax		
Current year	<b>315</b>	1,232
	<b>315</b>	1,232
Total income tax expenses recognised in profit or loss	<b>(3,140)</b>	(315)
	<b>(3,140)</b>	(315)

Hong Kong Profits Tax is calculated 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

The board (the “Board”) of directors of the Company (“Directors”) has resolved not to declare any interim dividend for the six months ended 30 June 2017 (2016: HK1.0 cent per share).

## 8. (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 period of approximately HK\$2,767,000 (2016: profit of HK\$1,565,000) and the following data:

	<b>(Unaudited)</b>	
	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<b>326,923,607</b>	324,793,025
Effect of dilutive potential ordinary shares on share options	—	476,573
	<b>326,923,607</b>	325,269,598

## 9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$1,929,000 (2016: HK\$766,000).

## 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, presented based on the invoice date and net of allowance for doubtful debts at the end of the reporting period:

	(Unaudited) 30 June 2017 HK\$'000	(Audited) 31 December 2016 HK\$'000
0-60 days	25,851	22,204
61-90 days	6	361
91-120 days	70	—
Over 120 days	33	6
	<b>25,960</b>	22,571

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 2017 HK\$'000	(Audited) 31 December 2016 HK\$'000
Overdue by:		
0-60 days	4,238	4,105
61-90 days	70	306
91-120 days	16	—
Over 120 days	17	6
	<b>4,341</b>	4,417

## 11. 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 the reporting period:

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
0–60 days	<b>10,425</b>	12,757
61–90 days	<b>866</b>	1,755
91–120 days	<b>140</b>	150
Over 120 days	<b>494</b>	433
	<b>11,925</b>	15,095

## 12. BANK BORROWINGS

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Secured bank loans <i>(Note)</i>	—	23,089

The secured bank loans have been repaid in full in January 2017.

*Note:* Bank loans were secured by the Group's leasehold land and buildings and investment property bearing interest from HIBOR +1.75% to HIBOR +2.25%p.a.. The effective interest rate on the secured bank loans ranged from 1.95% to 2.75%p.a..

## 12. BANK BORROWINGS (CONTINUED)

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

	(Unaudited)	(Audited)
	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
On demand or within one year	—	12,575
More than one year, but not exceeding two years <i>(Note)</i>	—	3,160
More than two years, but not exceeding five years <i>(Note)</i>	—	7,354
	<hr/>	<hr/>
	—	23,089
	<hr/>	<hr/>

*Note:* These bank loans that were 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.

## 13. COMMITMENTS

### (a) Capital commitments in respect of the acquisition of property, plant and equipment

	(Unaudited)	(Audited)
	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
Contracted but not provided for	1,846	361
	<hr/>	<hr/>

### 13. COMMITMENTS (CONTINUED)

#### (b) Operating lease commitments

##### *The Group as lessee*

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

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>5,142</b>	5,444
In the second to fifth years inclusive	<b>7,021</b>	9,694
Over five years	<b>24,200</b>	24,800
	<b>36,363</b>	39,938

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises, with lease terms of between 1 to 28 years.

##### *The Group as lessor*

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

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>3</b>	291
In the second to fifth years inclusive	<b>—</b>	25
	<b>3</b>	316

## 14. 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 the reporting period, the Company had issued the following guarantees:

#### (i) *Corporate guarantees 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*

At 30 June 2017, the Directors did not consider it probable that a claim could be made against the Company under the guarantee as the mortgage loan has been fully repaid.

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 nil.

## 15. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with related parties who are not members of the Group:

	<b>(Unaudited)</b>	
	<b>For the six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Rental expenses paid to:		
Mr. Poon Siu Chung	<b>60</b>	60

*Note:* Mr. Poon Siu Chung is a director of a number of subsidiaries of the Group.

A share option scheme (the “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 the Scheme is to recognise and motivate the contribution of employees and other persons who have contributed or 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 Scheme, the Board 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 subsidiary, adviser, consultant, customer and supplier and/or other person who in the sole discretion of the Board has contributed or may contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the schemes 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 the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of adoption of the Scheme. In addition, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 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 resolution approving the grant.

Also, where any grant of options to a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive Director, or any of their respective associates (as defined in the Listing Rules), would result in the shares of the Company (“Shares”) issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the relevant class of Shares in issue and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by shareholders, and the grantee, his associates and all connected persons (as defined in the Listing Rules) of the Company must abstain from voting in favour in the relevant resolutions.



## Share Option Scheme

In relation to the 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 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 may impose restrictions on the exercise of an option during the period an option may be exercised.

There was no movement in share option during the period and no outstanding share option both at the beginning and at end of the reporting period.

## Directors' Interests in Shares and Options

At 30 June 2017, the interests of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

### Long Positions in the shares of the Company

Director	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company
Mr. Gao Xiaorui	Interest of controlled corporation	119,297,041	—	119,297,041 (a)	36.49

Notes:

- (a) Fresh Choice Holdings Limited is a limited company incorporated in the British Virgin Islands owned as to 90% by Mr. Gao Xiaorui, a non-executive Director and 10% by Mr. Wu Zhenlong.

Other than as disclosed above, none of the directors, nor their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO at 30 June 2017.

## Changes in Directors' Biographical Details

Changes in Directors' biographical details since the date of the 2016 Annual Report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are the adjustment of salary package of Mr. Poon Wai Yip, Albert, an executive Director as shown below. The said adjustment was effective from the date specified below, with other terms of employment remained unchanged:

<b>Director</b>	<b>Annual salaries &amp; allowances</b>	<b>Performance bonus</b>	<b>Effective date</b>
Mr. Poon Wai Yip, Albert	HK\$2,640,000	1.25% of the Group's consolidated net profit	1 May 2017

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Other than the interests as disclosed above in the section “Directors’ Interests in Shares and Options”, at 30 June 2017, the register of substantial shareholders’ interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the share capital of the Company as follows:

### Long Positions in shares of the Company

Shareholders	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company
Mr. Zhai Jun	Interest of controlled corporation	125,297,040	—	125,297,040 (1)	38.33
Star Fly Limited	Beneficial owner	125,297,040	—	125,297,040 (1)	38.33
Fresh Choice Holdings Limited	Beneficial owner	119,297,041	—	119,297,041 (2)	36.49

*Notes:*

- (1) Star Fly Limited is a company incorporated in the British Virgin Islands wholly owned by Mr. Zhai Jun.
- (2) Fresh Choice Holdings Limited is a company incorporated in the British Virgin Islands owned as to 90% by Mr. Gao Xiaorui, a non-executive Director and 10% by Mr. Wu Zhenlong.

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (2016: HK1.0 cent per share).

## **BUSINESS REVIEW**

During the period under review, the total revenue of the Group stood at approximately HK\$91,876,000 (2016: HK\$87,355,000), representing an increase of about 5%, and recorded a loss for the period attributable to owners of the Company of approximately HK\$2,767,000 (2016: profit of HK\$1,565,000).

For the first half of 2017, the contribution from the core business of the Group recorded was approximately HK\$4,535,000 (2016: HK\$6,240,000). Detailed performance of each segment of the core business is discussed below. There was no gain from investments (2016: HK\$876,000) as the Group disposed all investments by the end of 2016.

### **Novelties and decorations products**

The revenue of the novelties and decoration products segment decreased further by about 27% to approximately HK\$5,492,000 (2016: HK\$7,542,000), while the loss therefrom amounted to approximately HK\$4,337,000 (2016: HK\$4,735,000). The segment continued to incur substantial loss or further marketing expenses might be required to maintain sustainable revenue.

### **Toy products**

The revenue of the segment increased gently by about 8% to approximately HK\$86,384,000 (2016: HK\$79,813,000), and recorded a positive contribution of HK\$8,872,000 (2016: HK\$10,975,000). The segment continued to contribute significantly and steadily to the Group.

### **Distribution costs and administrative expenses**

Distribution costs stood steadily at approximately HK\$1,772,000 (2016: HK\$1,906,000), representing a decrease of approximately 7%. Administrative expenses increased by about 23% to approximately HK\$21,863,000 (2016: HK\$17,719,000). The increase is mainly attributable to the increase in staff costs of approximately HK\$4.1 million.

## **BUSINESS REVIEW (CONTINUED)**

### **Finance costs**

The Group's finance costs dropped to approximately HK\$35,000 (2016: HK\$289,000) as a result of the full repayment of all bank borrowings in January 2017.

## **FUTURE PLAN AND PROSPECT**

New projects with limited amount of resources in relation to core business to widen the scope of business and/or improve profit margins are under consideration and/or preliminary design.

In view of the traditional peak season of the core business of the Company in the second half of the year, the Directors are optimistic that the results of the Group will improve in the second half of the year.

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.

### **Liquidity and financial resources**

At 30 June 2017, the Group did not have any bank borrowings (31 December 2016: HK\$23,089,000). The gearing ratio of the Group, measured by bank borrowings divided by equity attributable to owners of the Company, was 0% (31 December 2016: 11%).

## **FUTURE PLAN AND PROSPECT (CONTINUED)**

### **Pledge of Assets**

At 30 June 2017, no asset was pledged to secure the margin loan facilities granted to the Group (31 December 2016: HK\$47,223,000).

At 30 June 2017, the Group pledged the following assets to secure previous bank loans and bank facilities available to the Group:

- (i) Leasehold land and buildings with a carrying amount of approximately HK\$28,154,000 (31 December 2016: HK\$28,726,000); and
- (ii) Investment property with carrying amount of approximately HK\$32,700,000 (31 December 2016: HK\$32,700,000).

### **Net asset value**

The net asset value per share at 30 June 2017 was approximately HK\$0.62 (31 December 2016: HK\$0.63), calculated based on equity attributable to owners of the Company of approximately HK\$203,549,000 (31 December 2016: HK\$206,643,000) divided by the actual number of shares in issue on that date of 326,923,607 (31 December 2016: 326,923,607).

### **Employees and remuneration policies**

At 30 June 2017, the Group employed approximately 1,200 (2016: 1,280) full time employees. The Group remunerates its employees by reference to the prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its employees.

## **FUTURE PLAN AND PROSPECT (CONTINUED)**

### **Foreign currency exposure**

The Group's sales and purchases are mainly denominated in either Hong Kong Dollar or US Dollar. As all 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 foreign currency exchange exposure in this area. The Group however will closely monitor the trend of Renminbi to see if any action is required.

At 30 June 2017, the Group did not enter into any financial instrument for the hedging of exposure in foreign currencies.

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

During the period under review, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

### **Compliance with the Code on Corporate Governance**

Throughout the six months ended 30 June 2017, the Company has adopted the code provisions (the "Code Provisions") set out in the "Corporate Governance Code and Corporate Governance Report" (the "Code") issued by the Stock Exchange as its corporate governance code and has complied with the Code Provisions, save for the following deviations.



## **CORPORATE GOVERNANCE (CONTINUED)**

### **Compliance with the Code on Corporate Governance (Continued)**

**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 an executive director, Ms. Xie Yinuo ("Ms. Xie"), at the time of appointment.

It was because the management of the Company is of the view that Ms. Xie clearly understands the appointment arrangement in place. In any event, all Directors, including Ms. Xie, shall be subject to retirement by rotation in the manner prescribed under the bye-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.

### **Model Code for Securities Transactions by Directors**

The Board has adopted a code of conduct regarding Directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all Directors and they have confirmed that throughout the six months ended 30 June 2017, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

## **CORPORATE GOVERNANCE (CONTINUED)**

### **Audit Committee**

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing internal controls and financial reporting matters including the review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 of the Company now reported on.

### **Remuneration Committee**

The remuneration committee makes recommendations to the Board on the Company’s policy and structure of remuneration for the Directors and senior management.

The committee comprises Mr. Lau Shu Yan, Mr. Xie Xiaohong, and Mr. Zhang Shang, who is also the chairman of the committee.

The committee is governed by its terms of reference, which are in line with the Code.

## **CORPORATE GOVERNANCE (CONTINUED)**

### **Nomination Committee**

The nomination committee is responsible for the selection of and recommending to the Board on the selection of individuals nominated for directorships.

The committee comprises Mr. Zhang Shang, Mr. Xie Xiaohong, and Mr. Gao Xiaorui, who is also the chairman of the committee.

The committee is governed by its terms of reference, which are in line with the Code.

### **DIRECTORS OF THE COMPANY**

At the date of this report, 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. Xie Xiaohong and Mr. Lau Shu Yan as independent non-executive Directors.

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

Hong Kong, 25 August 2017