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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 2017**

**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 2017 and the comparative figures for 2016 were as follows:

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

*For the year ended 31 December 2017*

	<i>Notes</i>	<b>2017</b> <i>HK\$’000</i>	2016 <i>HK\$’000</i>
Revenue	3 & 4	<b>186,789</b>	237,069
Cost of sales		<b>(140,290)</b>	(167,966)
Gross profit		<b>46,499</b>	69,103
Other income, gains and losses	5	<b>1,505</b>	13,852
Distribution costs		<b>(3,681)</b>	(4,132)
Gain from changes in fair value of an investment property		<b>3,300</b>	1,300
Administrative expenses		<b>(53,274)</b>	(42,680)
Finance costs	6	<b>(35)</b>	(575)

\* *For identification purposes only*

	<i>Notes</i>	<b>2017</b> <b><i>HK\$'000</i></b>	2016 <i>HK\$'000</i>
(Loss) profit before tax	7	<b>(5,686)</b>	36,868
Income tax expenses	8	<u><b>(4,910)</b></u>	<u>(6,206)</u>
(Loss) profit for the year		<u><b>(10,596)</b></u>	<u>30,662</u>
Other comprehensive income (expenses), net of income tax			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of overseas operations		<u><b>1,636</b></u>	<u>(3,209)</u>
Total comprehensive (expenses) income for the year		<u><b>(8,960)</b></u>	<u>27,453</u>
(Loss) profit for the year attributable to:			
Owners of the Company		<b>(11,408)</b>	23,272
Non-controlling interests		<u><b>812</b></u>	<u>7,390</u>
(Loss) profit for the year		<u><b>(10,596)</b></u>	<u>30,662</u>
Total comprehensive (expenses) income for the year attributable to:			
Owners of the Company		<b>(10,064)</b>	20,396
Non-controlling interests		<u><b>1,104</b></u>	<u>7,057</u>
Total comprehensive (expenses) income for the year		<u><b>(8,960)</b></u>	<u>27,453</u>
(Loss) earnings per share	10		
Basic		<u><b>(3.49) Cents</b></u>	<u>7.14 Cents</u>
Diluted		<u><b>(3.49) Cents</b></u>	<u>7.11 Cents</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2017*

	<i>Notes</i>	<b>2017</b> <b><i>HK\$'000</i></b>	2016 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>59,131</b>	59,514
Investment property		<b>36,000</b>	32,700
Deferred tax assets		<b>8,090</b>	7,492
		<u><b>103,221</b></u>	<u>99,706</u>
<b>CURRENT ASSETS</b>			
Inventories		<b>17,363</b>	20,821
Trade and other receivables	11	<b>23,186</b>	28,945
Tax recoverable		<b>58</b>	398
Pledged bank deposits		—	47,223
Bank balances and cash		<b>103,498</b>	93,136
		<u><b>144,105</b></u>	<u>190,523</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	<b>24,771</b>	36,053
Tax liabilities		<b>6,959</b>	2,982
Bank borrowings		—	23,089
		<u><b>31,730</b></u>	<u>62,124</u>
<b>NET CURRENT ASSETS</b>		<u><b>112,375</b></u>	<u>128,399</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>215,596</b></u>	<u>228,105</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<u><b>95</b></u>	<u>50</u>
<b>NET ASSETS</b>		<u><b>215,501</b></u>	<u>228,055</u>

	<i>Notes</i>	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>32,692</b>	32,692
Reserves		<b>163,887</b>	173,951
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>196,579</b>	206,643
Non-controlling interests		<b>18,922</b>	21,412
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>215,501</b>	228,055
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## **NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31 December 2017*

### **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”)**

#### **Amendments to HKFRSs that became effective for the current year**

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 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>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>3</sup>
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <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 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle <sup>1</sup>
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle <sup>2</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<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 and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

### 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.

	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
Novelties and decoration products	<b>17,503</b>	23,139
Toy products	<b>169,286</b>	213,930
	<b><u>186,789</u></b>	<u>237,069</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 segments:

2017

	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>17,503</u>	<u>169,286</u>	<u>186,789</u>	
<b>RESULT</b>				
Segment result	<u>(5,872)</u>	<u>6,839</u>	967	
Gain from changes in fair value of an investment property			3,300	
Unallocated corporate expenses			(9,918)	
Finance costs			<u>(35)</u>	
Loss before tax			(5,686)	
Income tax expenses			<u>(4,910)</u>	
Loss for the year			<u>(10,596)</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	21,235	80,586	101,821	
Unallocated corporate assets			<u>145,505</u>	
Consolidated total assets			<u>247,326</u>	
<b>LIABILITIES</b>				
Segment liabilities	2,228	28,259	30,487	
Unallocated corporate liabilities			<u>1,338</u>	
Consolidated total liabilities			<u>31,825</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	288	4,521	24	4,833
Depreciation	922	5,091	1,366	7,379
Interest income	<u>14</u>	<u>82</u>	<u>9</u>	<u>105</u>

**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>30,662</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>290,229</u>	
<b>LIABILITIES</b>				
Segment liabilities	12,897	34,819	47,716	
Unallocated corporate liabilities			<u>14,458</u>	
Consolidated total liabilities			<u>62,174</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	1,033	5,333	1,615	7,981
Interest income	<u>32</u>	<u>19</u>	<u>28</u>	<u>79</u>

Segment result represents the result produced 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 the 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 the 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:

	<b>2017</b> <b>HK\$'000</b>	2016 <i>HK\$'000</i>
Sales revenue by geographical market:		
Hong Kong	<b>17,274</b>	8,002
Europe	<b>47,189</b>	53,338
America	<b>35,336</b>	90,194
Asia (other than Hong Kong)	<b>85,038</b>	82,480
Others	<b>1,952</b>	3,055
	<b><u>186,789</u></b>	<u>237,069</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>2017</b> <b>HK\$'000</b>	2016 <i>HK\$'000</i>	<b>2017</b> <b>HK\$'000</b>	2016 <i>HK\$'000</i>
Hong Kong	<b>172,506</b>	214,934	<b>68</b>	547
The People's Republic of China (the "PRC")	<b>74,820</b>	75,295	<b>4,765</b>	6,479
	<b><u>247,326</u></b>	<u>290,229</u>	<b><u>4,833</u></b>	<u>7,026</u>

### Information about major customer

Included in revenue arising from sales of toy products of approximately HK\$169,286,000 (2016: HK\$213,930,000) is revenue of approximately HK\$160,714,000 (2016: HK\$207,136,000) which arose from sales to the Group's largest customer, representing 86% (2016: 87%) of the total revenue.

## 5. OTHER INCOME, GAINS AND LOSSES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Included in other income, gains and losses are:		
Bad debt recovered	148	—
Bond interest income	—	48
Dividend income from held for trading investments	—	1,651
Interest income	105	79
Rental income	239	610
Scrap sales	1,277	1,795
Gain on disposal of property, plant and equipment	287	234
Gain from changes in fair value of derivative financial instruments	—	2,402
Gain on disposal of held for trading investments	—	1,604
Trade payables written-off	—	119
Net foreign exchange (losses) gains	(1,509)	3,294
Others	958	2,016
	<u>1,505</u>	<u>13,852</u>

## 6. FINANCE COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	<u>35</u>	<u>575</u>

## 7. (LOSS) PROFIT BEFORE TAX

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
(Loss) profit before tax has been arrived at after charging (crediting):		
Auditor's remuneration	1,075	1,050
Bad debt recovered	148	—
Cost of inventories recognised as an expense	47,523	63,590
Depreciation of property, plant and equipment	7,379	7,981
Operating lease rentals in respect of rented premises	5,528	5,700
Gross rental income from investment property	(239)	(610)
Less:		
Direct operating expenses incurred for investment property that generated rental income during the year	53	101
Direct operating expenses incurred for investment property that did not generate rental income during the year	38	—
	<u>(148)</u>	<u>(509)</u>
Write down of inventories	1,238	13
Staff costs		
— Salaries and allowances (including Directors' emoluments)	88,820	88,538
— Compensation for removal of a factory	3,763	—
	<u><u>88,820</u></u>	<u><u>88,538</u></u>

## 8. INCOME TAX EXPENSES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	2,755	6,894
PRC Enterprise Income Tax	249	257
	<u>3,004</u>	<u>7,151</u>
Under (over) provision in prior years:		
Hong Kong Profits Tax	2,302	(524)
PRC Enterprise Income Tax	157	82
	<u>2,459</u>	<u>(442)</u>
Deferred tax		
Current year	(553)	(503)
Total income tax expenses recognised in profit or loss	<u><u>4,910</u></u>	<u><u>6,206</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:

	<b>2017</b> <b>HK\$'000</b>	2016 <i>HK\$'000</i>
(Loss) profit before tax	<u><b>(5,686)</b></u>	<u>36,868</u>
Tax at Hong Kong Profits Tax rate of 16.5%	<b>(938)</b>	6,083
Tax effect of income not taxable for tax purposes	<b>(1,285)</b>	(7,150)
Tax effect of expenses not deductible for tax purposes	<b>2,668</b>	3,717
Tax effect of temporary differences not recognised	<b>156</b>	155
Tax effect of tax losses not recognised	<b>2,395</b>	2,975
Utilisation of tax losses not previously recognised	<b>(82)</b>	(141)
Under (over) provision in respect of prior years	<b>2,459</b>	(442)
Effect of different tax rates of subsidiaries operating in the PRC	<u><b>(463)</b></u>	<u>1,009</u>
Tax charge for the year	<u><b>4,910</b></u>	<u>6,206</u>

## 9. DIVIDENDS

	<b>2017</b> <b>HK\$'000</b>	2016 <i>HK\$'000</i>
Interim paid — nil (2016: 1.0 HK cent)	<u>—</u>	<u>3,269</u>

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

## 10. (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\$11,408,000 (2016: profit of HK\$23,272,000) and the following data:

	<b>2017</b>	2016
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<b>326,923,607</b>	325,864,137
Effect of dilutive potential ordinary shares on share options	<u>—</u>	<u>1,349,884</u>
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<u><b>326,923,607</b></u>	<u>327,214,021</u>

Diluted loss per share for the year ended 31 December 2017 was the same as basic loss per share as there were no dilutive potential ordinary shares in issue for the year.

## 11. TRADE AND OTHER RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	20,564	29,380
Less: impairment loss on trade receivables	<u>(4,524)</u>	<u>(6,809)</u>
	<u>16,040</u>	<u>22,571</u>
Other receivables		
Prepayment	3,766	1,233
Rental, utility and other deposits	1,710	1,949
Cash deposit in broker's account	8	7
Sundry debtors and others ( <i>Note a</i> )	<u>1,662</u>	<u>3,185</u>
	<u>7,146</u>	<u>6,374</u>
	<u><u>23,186</u></u>	<u><u>28,945</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 invoice dates and net of allowance for doubtful debts at the end of the reporting period:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0–60 days	15,554	22,204
61–90 days	209	361
91–120 days	—	—
Over 120 days	<u>277</u>	<u>6</u>
	<u><u>16,040</u></u>	<u><u>22,571</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 offsetting against any amounts owed by the Group to the counterparty.

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

	<b>2017</b> <b>HK\$'000</b>	2016 <i>HK\$'000</i>
Overdue by:		
0–60 days	<b>5,138</b>	4,105
61–90 days	—	306
91–120 days	<b>277</b>	—
Over 120 days	—	6
	<u>5,415</u>	<u>4,417</u>

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

	<b>2017</b> <b>HK\$'000</b>	2016 <i>HK\$'000</i>
At 1 January	<b>6,809</b>	6,809
Amounts recovered during the year	<b>(148)</b>	—
Amounts written off during the year as uncollectible	<b>(2,137)</b>	—
At 31 December	<u><b>4,524</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 2017 approximates the corresponding carrying amount.

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

	<b>2017</b> <b>HK\$'000</b>	2016 <i>HK\$'000</i>
Overdue by:		
Over 120 days	<u><b>4,524</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 invoice dates at the end of reporting period:

	<b>2017</b> <b>HK\$'000</b>	2016 <i>HK\$'000</i>
Trade payables		
0–60 days	<b>7,153</b>	12,757
61–90 days	<b>1,830</b>	1,755
91–120 days	<b>95</b>	150
Over 120 days	<b>521</b>	433
	<u><b>9,599</b></u>	<u>15,095</u>
Other payables		
Accrued salary, bonus and commission	<b>7,710</b>	8,789
Deposits received from customers	<b>3,989</b>	7,375
Accrued expenses and others	<b>3,473</b>	4,794
	<u><b>15,172</b></u>	<u>20,958</u>
	<u><b>24,771</b></u>	<u>36,053</u>

The average credit period on purchases of certain goods is 45 to 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame. The fair value of the Group's trade and other payables at 31 December 2017 approximates 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 2017. Total revenue for the year amounted to approximately HK\$186,789,000 (2016: HK\$237,069,000), representing an decrease of about 21%. The net loss for the year attributable to owners of the Company stood at approximately HK\$11,408,000 (2016: profit of HK\$23,272,000). Basic loss per share was approximately 3.49 HK cents (2016: earnings of 7.14 HK cents).

### **DIVIDENDS**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

### **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 2018, Friday, to 1 June 2018, Friday (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 2018, Thursday.

### **BUSINESS REVIEW**

As stated above, the revenue of the Group decreased by about 21%, details of the performance of the two segments are disclosed in the "Management Discussion and Analysis". As the increment of interest rate of the US Dollar was not as high as expected, Renminbi rebounded continuously and gradually during the year increasing the costs of production in the PRC to a certain level.

For the year of 2017, there was neither gain nor loss from investments (2016: gain of HK\$5,708,000) as the Group had disposed all held-for-trading investments in 2016.

Besides, administrative expenses increased by about 25% to approximately HK\$53,274,000 (2016: HK\$42,680,000). The increase was mainly attributable to the increase in staff costs of approximately HK\$12 million which, amongst others, included an amount of approximately HK\$3.8 million compensation paid to employees for relocation of production plant, while legal and professional fee expenses decreased by about 48% to approximately HK\$1.9 million (2016: HK\$3.7 million) as there was no legal and professional fee on take-over advice incurred in 2017. On the other hand, distribution costs decreased slightly by about 11% to HK\$3,681,000 (2016: HK\$4,132,000).

Finance costs decreased by about 94% to approximately HK\$35,000 (2016: HK\$575,000) as the Group has repaid all loans outstanding by early 2017.

## **FUTURE PLAN & PROSPECT**

In 2018, we expect that the global economy will continue to grow. However, there are still many uncertainties and risks, such as the potential trade war among China and United States of America, nuclearisation of North Korea and increase in interest rate. We will bear in mind these risks and manage the risks through diversification and prudent cashflow management. We will continue to consolidate our principal business, increase products portfolio and upgrade product to satisfy the needs of customers and increase the market share.

In the meantime, the Group will continue to identify good investment opportunities, which can contribute revenue immediately and create additional value through the synergy effect 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 24% to approximately HK\$17,503,000 (2016: HK\$23,139,000), and the segment recorded a loss before interests and tax of approximately HK\$5,872,000 (2016: HK\$7,332,000).

## **Toy products**

The revenue of this segment decreased substantially by about 21% to approximately HK\$169,286,000 (2016: HK\$213,930,000), and the segment result therefrom also decreased by about 85% to approximately HK\$6,839,000 (2016: HK\$46,989,000). The performance of this segment worsen because of decrease in revenue for the decrease in demand of the products it manufactured for its ultimate customer and incurrence of compensation paid to employees of approximately HK\$3.8 million for the relocation of production plant.

## **Investments**

To well utilise the available cash on hand, the Group might invest in the securities of various listed companies, which were held for trading purposes for capital gain in the value of the securities. As at 31 December 2017, the market value of held for trading investments was nil (2016: nil).

In addition, the Group may utilise its cash on hand by investing in other types of investment with a view to enhancing the return to the shareholders. However, that must be carried out in accordance with the Company's treasury policies on investment transactions, details of which are posted on the Company's website, [www.perfectech.com.hk](http://www.perfectech.com.hk).

## **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 2017, the Group had not entered into any financial instrument for the hedging of foreign currency.

## **Liquidity and financial resources**

As at 31 December 2017, there were no long-term finance lease obligations and bank loans (2016: nil) nor short term bank borrowings (2016: HK\$23,089,000) of the Group, and none of the Group's plant and machinery (2016: HK\$nil) was held under a finance lease. The gearing ratio of the Group, measured by total bank and other borrowings divided by equity attributable to owners of the Company, was nil (2016: 11%). As at 31 December 2017, the Group had bank balances and cash of approximately HK\$103,498,000 (2016: HK\$93,136,000).

With cash and other current assets as at 31 December 2017 of HK\$144,105,000 (2016: HK\$190,523,000) 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 2017 was approximately HK\$0.60 (2016: HK\$0.63), calculated based on equity attributable to equity holders of the Company of HK\$196,579,000 (2016: HK\$206,643,000) divided by the actual number of shares in issue on that date of 326,923,607 (2016: 326,923,607).

### **Employees and remuneration policies**

As at 31 December 2017, the Group employed approximately 832 (2016: 1,110) 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 2017, 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 2017, 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.

**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 letter of appointment for Ms. Xie Yinuo at the time of her appointment. It was because the management of the Company was of the view that the Director clearly understood the appointment arrangement in place. Also, all Directors, including those without a letter of appointment, 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.

#### **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 2017 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 2017 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, 29 March 2018

*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 a non-executive Director and Mr. Zhang Shang, Mr. Lau Shu Yan and Mr. Xie Xiaohong as independent non-executive Directors.*