

Perfectech

Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 765





CORPORATE INFORMATION

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 REPRESENTATIVES

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

The board (the “Board”) of directors (the “Directors”, each a “Director”) of Perfectech International Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		(Unaudited)	
		For the six months ended 30 June	
		2018	2017
	Notes	HK\$'000	HK\$'000
Revenue	2 & 3	59,691	91,876
Cost of sales		<u>(56,624)</u>	<u>(68,009)</u>
Gross profit		3,067	23,867
Other income, gains and losses	4	294	1,051
Distribution costs		(1,466)	(1,772)
Administrative expenses		(26,616)	(21,863)
Finance costs		(7)	(35)
		<u>(24,728)</u>	<u>1,248</u>
(Loss) profit before tax	5	(24,728)	1,248
Income tax credit (expenses)	6	1,697	(3,140)
		<u>(23,031)</u>	<u>(1,892)</u>
Loss for the period		<u>(23,031)</u>	<u>(1,892)</u>
Other comprehensive expenses, net of income tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of overseas operations		(213)	(368)
		<u>(23,244)</u>	<u>(2,260)</u>
Total comprehensive expenses for the period		<u>(23,244)</u>	<u>(2,260)</u>
(Loss) profit for the period attributable to:			
Owners of the Company		(21,430)	(2,767)
Non-controlling interests		(1,601)	875
		<u>(23,031)</u>	<u>(1,892)</u>
Loss for the period		<u>(23,031)</u>	<u>(1,892)</u>

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CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		(Unaudited)	
		For the six months ended 30 June	
		2018	2017
<i>Note</i>		HK\$'000	HK\$'000
Total comprehensive (expenses) income for the period attributable to:			
	Owners of the Company	(21,721)	(3,094)
	Non-controlling interests	(1,523)	834
		(23,244)	(2,260)
Total comprehensive expenses for the period			
Loss per share		8	HK cents
	Basic	(6.56)	(0.85)
	Diluted	(6.56)	(0.85)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

		(Unaudited) 30 June 2018 HK\$'000	(Audited) 31 December 2017 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	9	54,175	59,131
Investment property		36,000	36,000
Deferred tax assets		9,725	8,090
		99,900	103,221
CURRENT ASSETS			
Inventories		24,215	17,363
Trade and other receivables	10	21,960	23,186
Tax recoverable		239	58
Bank balances and cash		78,202	103,498
		124,616	144,105
CURRENT LIABILITIES			
Trade and other payables	11	30,302	24,771
Tax liabilities		2,462	6,959
		32,764	31,730
NET CURRENT ASSETS		91,852	112,375
TOTAL ASSETS LESS CURRENT LIABILITIES		191,752	215,596
NON-CURRENT LIABILITIES			
Deferred tax liabilities		31	95
NET ASSETS		191,721	215,501



CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION

At 30 June 2018

	(Unaudited) 30 June 2018 HK\$'000	(Audited) 31 December 2017 HK\$'000
CAPITAL AND RESERVES		
Share capital	32,692	32,692
Reserves	142,166	163,887
	<hr/>	<hr/>
Equity attributable to owners of the Company	174,858	196,579
Non-controlling interests	16,863	18,922
	<hr/>	<hr/>
TOTAL EQUITY	191,721	215,501
	<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	(Unaudited)							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Equity attributable to owners of the Company HK\$'000	Non- controlling interests HK\$'000	
At 1 January 2018	32,692	118,895	10,337	(1,283)	35,938	196,579	18,922	215,501
Loss for the period	-	-	-	-	(21,430)	(21,430)	(1,601)	(23,031)
Other comprehensive expenses for the period								
Exchange difference on translation of overseas operations	-	-	-	(291)	-	(291)	78	(213)
Total comprehensive expenses for the period	-	-	-	(291)	(21,430)	(21,721)	(1,523)	(23,244)
Dividends	-	-	-	-	-	-	(536)	(536)
At 30 June 2018	32,692	118,895	10,337	(1,574)	14,508	174,858	16,863	191,721
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	(Unaudited)	
	For the six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
NET CASH USED IN FROM OPERATING ACTIVITIES	(26,959)	(4,832)
NET CASH FROM INVESTING ACTIVITIES	2,419	45,406
NET CASH USED IN FINANCING ACTIVITIES	(543)	(26,718)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(25,083)	13,856
CASH AND CASH EQUIVALENTS AT 1 JANUARY	103,498	93,136
Effect of change in foreign exchange rates	(213)	(368)
CASH AND CASH EQUIVALENTS AT 30 JUNE	78,202	106,624
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	78,202	106,624

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

1 BASIS OF PREPARATION

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

The condensed consolidated financial statements have not been audited but have been reviewed by the audit committee of the Company.

Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

New and revised HKFRSs that became effective for the current year

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017 except as described below.

The Group has applied the following new and revised HKFRSs, issued by the HKICPA for the first time in the current period:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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.

1 BASIS OF PREPARATION (CONTINUED)

Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

New and revised HKFRSs issued 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 16	Leases ¹
HKFRS 17	Insurance Contracts ²
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 19	Employee Benefits ¹
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2021

³ The original effective date has been deferred to a date yet to be determined

The Directors anticipate that the application of these new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE
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 2018 (Unaudited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
REVENUE			
External sales and total revenue	3,179	56,512	59,691
RESULT			
Segment results	(4,612)	(14,539)	(19,151)
Unallocated corporate expenses			(5,570)
Finance costs			(7)
Loss before tax			(24,728)
Income tax credit			1,697
Loss for the period			(23,031)

2 BUSINESS SEGMENTS (CONTINUED)

At 30 June 2018 (Unaudited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	15,878	74,342	90,220
Unallocated corporate assets			134,296
			<hr/>
Consolidated total assets			224,516
			<hr/>
LIABILITIES			
Segment liabilities	6,536	25,640	32,176
Unallocated corporate liabilities			619
			<hr/>
Consolidated total liabilities			32,795
			<hr/>

Other Information

For the six months ended 30 June 2018 (Unaudited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	—	1,221	—	1,221
Depreciation and amortisation	344	3,008	635	3,987
Interest income	4	9	3	16

NOTES TO THE
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 BUSINESS SEGMENTS (CONTINUED)

For the six months ended 30 June 2017 (Unaudited)

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

At 31 December 2017 (Unaudited)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	21,235	80,586	101,821
Unallocated corporate assets			145,505
Consolidated total assets			247,326
LIABILITIES			
Segment liabilities	2,228	28,259	30,487
Unallocated corporate liabilities			1,338
Consolidated total liabilities			31,825

2 BUSINESS SEGMENTS (CONTINUED)

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

Information about major customer

Revenue from sales of toy products of approximately HK\$56,512,000 (2017: HK\$86,384,000) included sales to the Group's largest customer of approximately HK\$52,226,000 (2017: HK\$82,505,000).

3. GEOGRAPHICAL SEGMENTS

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

	(Unaudited)	
	For the six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Sales revenue by geographical market:		
Hong Kong	5,351	4,851
Europe	5,158	20,035
America	13,703	16,633
Asia (other than Hong Kong)	35,453	49,877
Others	26	480
	59,691	91,876

NOTES TO THE
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. GEOGRAPHICAL SEGMENTS (CONTINUED)

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

	(Unaudited) 30 June 2018 HK\$'000	(Audited) 31 December 2017 HK\$'000
Hong Kong	162,211	172,506
The People's Republic of China (the "PRC")	62,305	74,820
	<hr/> 224,516	<hr/> 247,326

The following is an 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 2018 HK\$'000	2017 HK\$'000
Hong Kong	37	23
The PRC	1,184	1,906
	<hr/> 1,221	<hr/> 1,929

4. OTHER INCOME, GAINS AND LOSSES

	(Unaudited)	
	For the six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Interest income	16	87
Rental income	—	236
Scrap sales	165	105
Gain (loss) on disposal of property, plant and equipment	304	(30)
Gain on derecognition of a subsidiary	1,130	—
Net foreign exchange losses	(2,798)	(399)
Others	1,477	1,052
	294	1,051

5. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived after charging:

	(Unaudited)	
	For the six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	3,987	3,889

NOTES TO THE
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX CREDIT (EXPENSES)

	(Unaudited)	
	For the six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax	—	(969)
	<hr/>	
Underprovision in prior years:		
Hong Kong Profits Tax	—	(2,334)
PRC Enterprise Income tax	(2)	(152)
	<hr/>	
	(2)	(2,486)
	<hr/>	
Deferred tax		
Current year	1,699	315
	<hr/>	
Total income tax credit (expenses) recognised in profit or loss	1,697	(3,140)
	<hr/>	

7. DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2018 (2017: NIL).

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the net loss for the period attributable to owners of the Company of approximately HK\$21,430,000 (2017: HK\$2,767,000) and the weighted average number of ordinary shares in issue during the period of 326,923,607 (2017: 326,923,607).

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$1,221,000 (2017: HK\$1,929,000).

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 2018 HK\$'000	(Audited) 31 December 2017 HK\$'000
0-60 days	13,630	15,554
61-90 days	4	209
91-120 days	1	—
Over 120 days	—	277
	<hr/> 13,635	<hr/> 16,040

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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 2018 HK\$'000	(Audited) 31 December 2017 HK\$'000
Overdue by:		
0-60 days	4,845	5,138
61-90 days	1	—
91-120 days	—	277
	<hr/> 4,846	<hr/> 5,415

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:

	(Unaudited) 30 June 2018 HK\$'000	(Audited) 31 December 2017 HK\$'000
0-60 days	8,661	7,153
61-90 days	2,752	1,830
91-120 days	403	95
Over 120 days	923	521
	<hr/> 12,739	<hr/> 9,599

12. COMMITMENTS

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

	(Unaudited)	(Audited)
	30 June	31 December
	2018	2017
	HK\$'000	HK\$'000
Contracted but not provided for	757	190

(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:

	(Unaudited)	(Audited)
	30 June	31 December
	2018	2017
	HK\$'000	HK\$'000
Within one year	3,436	4,933
In the second to fifth years inclusive	5,186	5,825
Over five years	23,179	23,786
	31,801	34,544

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.

13. 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 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 condensed consolidated financial statements of the Group.

(b) Financial guarantees issued

At the end of the reporting period, the Company 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 2018, the Directors did not consider it probable that a claim could be made against the Company under any of the guarantees as there was no drawn down from the banking facilities.

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.

14. RELATED PARTY TRANSACTIONS

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

	(Unaudited)	
	For the six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Poon Siu Chung	60	60
Disposal of property, plant and equipment to Mr. Poon Siu Chung	2,200	—
	225	—
	(Unaudited)	(Audited)
	30 June	31 December
	2018	2017
	HK\$'000	HK\$'000
Amount due from Dr. Poon Wai Tsun, William (included in trade and other receivables in condensed consolidated statement of financial position)	225	—

Note: Mr. Poon Siu Chung and Dr, Poon Wai Tsun, William are directors of a number of subsidiaries of the Group.



SHARE OPTION SCHEME

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 purposes of the Scheme are to recognise and motivate the contribution of employees and other persons who have contributed or may have a contribution to the Group, to provide them with incentives, 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 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 subsidiaries), advisers, consultants, customers and suppliers 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 (the “Shares”) 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 in issue at the date of adoption of the Scheme. The Company may seek approval of its shareholders in general meeting to renew the said 10% limit provided that the limit so renewed shall not exceed 10% of the Shares in issue as at the date of approval of the renewal. 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 the Shares 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 (as defined in the Listing Rules) being abstained from voting in such resolution approving the grant.



SHARE OPTION SCHEME

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 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 total 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.

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 Board 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 the end of the reporting period.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 30 June 2018, 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

Note:

- (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 2018.

SUBSTANTIAL SHAREHOLDERS

Other than the interests as disclosed above in the section “Directors’ Interests in Shares and Options”, at 30 June 2018, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board does not declare the payment of interim dividend for the six months ended 30 June 2018 (2017: NIL).

BUSINESS REVIEW

During the period under review, the total revenue of the Group was approximately HK\$59,691,000 (2017: HK\$91,876,000), representing a decrease of about 35%, and recorded a loss for the period attributable to owners of the Company of approximately HK\$21,430,000 (2017: loss of HK\$2,767,000).

For the first half of 2018, the core business of the Group recorded a loss of HK\$19,151,000 (2017: profit of HK\$4,535,000). Detailed performance of each segment of the core business is discussed below.

Novelties and decorations products

The revenue of the novelties and decoration products segment decreased further by about 42% to approximately HK\$3,179,000 (2017: HK\$5,492,000), while the loss therefrom amounted to approximately HK\$4,612,000 (2017: HK\$4,337,000). The loss from this segment continued to increase and further measures in cutting costs as well as expenses would be considered.

Toy products

The revenue of the segment decreased sharply by about 35% to approximately HK\$56,512,000 (2017: HK\$86,384,000), and this segment recorded a loss of HK\$14,539,000 (2017: profit of HK\$8,872,000). The segment result was almost the worst in history as the demand from a major customer dropped given there was a change of its product mix.

Distribution costs and administrative expenses

Distribution costs stood at approximately HK\$1,466,000 (2017: HK\$1,772,000), representing a decrease of approximately 17%, while administrative expenses increased by about 22% to approximately HK\$26,616,000 (2017: HK\$21,863,000) as a result of, among others, an increase in staff costs of approximately HK\$4 million on special bonus paid to the directors of the subsidiaries of the Company.

Finance costs

The Group's finance costs dropped to approximately HK\$7,000 (2017: HK\$35,000) as a result of the full repayment of all bank borrowings in 2017.

FUTURE PLAN AND PROSPECT

New projects 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 be improved 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.

OTHER INFORMATION

Liquidity and financial resources

As at 30 June 2018, the Group did not have any bank borrowing (31 December 2017: NIL). The gearing ratio of the Group, measured by bank borrowing divided by equity attributable to owners of the Company, was 0% (31 December 2017: 0%).

Pledge of Assets

As at 30 June 2018, the Group pledged the following assets to secure bank facilities available to the Group:

- (i) Leasehold land and buildings with a carrying amount of approximately HK\$27,009,000 (31 December 2017: HK\$27,581,000); and
- (ii) Investment property with carrying amount of approximately HK\$36,000,000 (31 December 2017: HK\$36,000,000).

OTHER INFORMATION (CONTINUED)

Net asset value

The net asset value per share as at 30 June 2018 was approximately HK\$0.53 (31 December 2017: HK\$0.60), calculated based on equity attributable to owners of the Company of approximately HK\$174,858,000 (31 December 2017: HK\$196,579,000) divided by the actual number of shares in issue on that date of 326,923,607 (31 December 2017: 326,923,607).

Employees and remuneration policies

As at 30 June 2018, the Group employed approximately 932 (2017: 832) 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.

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.

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 2018, the Company has adopted the code provisions (the “Code Provisions”) of the Code on Corporate Governance as set out in Appendix 14 to the Listing Rules as its corporate governance code and has complied with the Code Provisions, save for the following deviations.

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 for Securities Transactions by Directors of Listed Issuers (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 2018, 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 the 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 2018 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.

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, 27 August 2018