Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 765

Interim Report 2019

BOARD OF DIRECTORS

Executive Directors:

Mr. Li Shaohua
(Chief Executive Officer)
(appointed on 21 February 2019)
Mr. Poon Wai Yip, Albert
Mr. Wong Sze Chai
(Chief Executive Officer)
(resigned on 21 February 2019)

Non-executive Director:

Mr. Gao Xiaorui *(Chairman)*

Independent Non-executive Directors:

Mr. Lau Shu Yan
Mr. Xie Xiaohong
Mr. Lam Tak Leung

AUDIT COMMITTEE

Mr. Lau Shu Yan *(Committee Chairman)*
Mr. Xie Xiaohong
Mr. Lam Tak Leung

REMUNERATION COMMITTEE

Mr. Lam Tak Leung *(Committee Chairman)*
Mr. Xie Xiaohong
Mr. Lau Shu Yan

NOMINATION COMMITTEE

Mr. Gao Xiaorui *(Committee Chairman)*
Mr. Xie Xiaohong
Mr. Lam Tak Leung

COMPANY SECRETARY

Mr. Leung Tak Ho

AUTHORISED REPRESENTATIVES

Mr. Li Shaohua
(appointed on 21 February 2019)
Mr. Leung Tak Ho
Mr. Wong Sze Chai
(resigned on 21 February 2019)

AUDITOR

HLM CPA Limited
Certified Public Accountants

LEGAL ADVISER

Cheung Tong & Rosa Solicitors

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
4th floor North Cedar House
41 Cedar Avenue
Hamilton HM12 Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Standard Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Victoria Place
5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

15/F, Sun Hing Industrial Building
46 Wong Chuk Hang Road
Aberdeen
Hong Kong

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") for the six months ended 30 June 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		(Unaudited) For the six months ended 30 June	
		2019	2018
	Notes	**HK$'000**	HK$'000
Revenue	3 & 4	**64,555**	59,691
Cost of sales		**(56,680)**	(56,624)
Gross profit		**7,875**	3,067
Other income, gains and losses	5	**1,902**	294
Distribution costs		**(1,521)**	(1,466)
Administrative expenses		**(35,235)**	(26,616)
Finance costs		**(674)**	(7)
Loss before tax	6	**(27,653)**	(24,728)
Income tax credit	7	**546**	1,697
Loss for the period		**(27,107)**	(23,031)
Other comprehensive income (expense), net of tax			
Item that will not be reclassified to profit or loss:			
Surplus on revaluation of leasehold land and building held for own use upon transfer to investment property		**16,101**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of overseas operations		**16**	(213)
Other comprehensive income (expense) for the period		**16,117**	(213)
Total comprehensive expense for the period		**(10,990)**	(23,244)

For the six months ended 30 June 2019

	Note	(Unaudited) For the six months ended 30 June 2019 HK$'000	2018 HK$'000
Loss for the period attributable to:			
Owners of the Company		**(26,485)**	(21,430)
Non-controlling interests		**(622)**	(1,601)
Loss for the period		**(27,107)**	(23,031)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(10,372)**	(21,721)
Non-controlling interests		**(618)**	(1,523)
Total comprehensive expense for the period		**(10,990)**	(23,244)
Loss per share	9		
Basic (HK cents per share)		**(8.10)**	(6.56)
Diluted (HK cents per share)		**(8.10)**	(6.56)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**56,385**	85,194
Investment property	10	**42,300**	—
Right-of-use assets		**18,094**	—
Deferred tax assets		**9,206**	8,678
		125,985	93,872
CURRENT ASSETS			
Inventories		**20,485**	11,866
Trade and other receivables	11	**25,663**	21,472
Tax recoverable		**664**	664
Bank balances and cash		**67,282**	73,946
		114,094	107,948
CURRENT LIABILITIES			
Trade and other payables	12	**26,532**	17,800
Lease liabilities		**832**	—
Amount due to a director of subsidiaries	13	**13,864**	—
Bank borrowings		**15,500**	7,000
Bank overdraft		**2,437**	2,478
		59,165	27,278
NET CURRENT ASSETS		**54,929**	80,670
TOTAL ASSETS LESS CURRENT LIABILITIES		**180,914**	174,542
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**16**	62
Lease liabilities		**17,408**	—
		17,424	62
NET ASSETS		**163,490**	174,480

At 30 June 2019

	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
CAPITAL AND RESERVES		
Share capital	**32,692**	32,692
Reserves	**115,247**	125,619
Equity attributable to owners of the Company	**147,939**	158,311
Non-controlling interests	**15,551**	16,169
TOTAL EQUITY	**163,490**	174,480

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	(Unaudited)								
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Property revaluation reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Equity attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2019	**32,692**	**118,895**	**10,337**	**–**	**(3,127)**	**(486)**	**158,311**	**16,169**	**174,480**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(26,485)**	**(26,485)**	**(622)**	**(27,107)**
Other comprehensive income for the period	**–**	**–**	**–**	**16,101**	**12**	**–**	**16,113**	**4**	**16,117**
Total comprehensive expense for the period	**–**	**–**	**–**	**16,101**	**12**	**(26,485)**	**(10,372)**	**(618)**	**(10,990)**
At 30 June 2019	**32,692**	**118,895**	**10,337**	**16,101**	**(3,115)**	**(26,971)**	**147,939**	**15,551**	**163,490**
At 1 January 2018	32,692	118,895	10,337	–	(1,283)	35,938	196,579	18,922	215,501
Profit for the period	–	–	–	–	–	(21,430)	(21,430)	(1,601)	(23,031)
Other comprehensive expense for the period	–	–	–	–	(291)	–	(291)	78	(213)
Total comprehensive expense 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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	(Unaudited) For the six months ended 30 June 2019 HK$'000	2018 HK$'000
NET CASH USED IN OPERATING ACTIVITIES	**(26,986)**	(26,959)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(903)**	2,419
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**21,250**	(543)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(6,639)**	(25,083)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**71,468**	103,498
Effect of change in foreign exchange rates	**16**	(213)
CASH AND CASH EQUIVALENTS AT 30 JUNE	**64,845**	78,202
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank overdraft	**(2,437)**	—
Bank balances and cash	**67,282**	78,202
	64,845	78,202

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to 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 are unaudited but have been reviewed by the audit committee of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment property which is measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except for HKFRS 16 Leases, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

<u>Short-term leases and lease of low-value assets</u>

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight line basis over the lease term.

<u>Right-of-use assets</u>

Except for short-term leases and lease of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets (Continued)

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life.

Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment property.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

- the exercise price of a purchase option reasonably certain to be exercised by the Group; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Subsequently, adjustments to fair value are considered as additional lease payments from lessees.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK$18,680,000 and right-of-use assets of HK$18,680,000 at 1 January 2019.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied ranges from 3% to 4%.

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	32,355
Less: Recognition exemption — short-term leases and lease of low-value assets	(3,286)
	29,069
Less: total future interest expenses	(10,389)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	18,680
Analysed as	
Current	879
Non-current	17,801
	18,680

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	HK$'000	HK$'000	HK$'000
Non-current Assets			
Right-of-use assets	–	18,680	18,680
Current Liabilities			
Lease liabilities	–	879	879
Non-current Liabilities			
Lease liabilities	–	17,801	17,801

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

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 period.

	(Unaudited) For the six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Revenue from contracts with customers recognized at a point in time:		
Novelties and decoration products	**3,044**	3,179
Toy products	**61,511**	56,512
	64,555	59,691

4. SEGMENT 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 sales of toy products.

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

For the six months ended 30 June 2019 (Unaudited)

	Novelties and decoration products HK$'000	Toy products HK$'000	Consolidated HK$'000
REVENUE			
External sales and total revenue	3,044	61,511	64,555
RESULT			
Segment results	(3,742)	(11,135)	(14,877)
Unallocated corporate expenses, net			(12,102)
Finance costs			(674)
Loss before tax			(27,653)
Income tax credit			546
Loss for the period			(27,107)

4. SEGMENT REPORTING (CONTINUED)

At 30 June 2019 (Unaudited)

	Novelties and decoration products HK$'000	Toy products HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	30,766	82,447	113,213
Unallocated corporate assets			126,866
Consolidated total assets			240,079
LIABILITIES			
Segment liabilities	26,856	49,259	76,115
Unallocated corporate liabilities			474
Consolidated total liabilities			76,589

4. SEGMENT REPORTING (CONTINUED)

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, net			(5,570)
Finance costs			(7)
Loss before tax			(24,728)
Income tax credit			1,697
Loss for the period			(23,031)

4. SEGMENT REPORTING (CONTINUED)

At 31 December 2018 (Audited)

	Novelties and decoration products HK$'000	Toy products HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	14,187	62,270	76,457
Unallocated corporate assets			125,363
Consolidated total assets			201,820
LIABILITIES			
Segment liabilities	4,740	21,382	26,122
Unallocated corporate liabilities			1,218
Consolidated total liabilities			27,340

4. SEGMENT REPORTING (CONTINUED)

Geographical Information

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

	(Unaudited) For the six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Revenue by geographical market:		
Hong Kong	**4,269**	5,351
Europe	**4,775**	5,158
United States of America	**277**	13,703
Asia (other than Hong Kong)	**55,167**	35,453
Others	**67**	26
	64,555	59,691

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

	Carrying amount of segment assets	
	(Unaudited)	(Audited)
	30 June	31 December
	2019	2018
	HK$'000	HK$'000
Hong Kong	**187,468**	154,595
The People's Republic of China (the "PRC")	**52,611**	47,225
	240,079	201,820

5. OTHER INCOME, GAINS AND LOSSES

	(Unaudited) For the six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Interest income from financial assets held for cash management purposes	**307**	16
Rental income	**204**	—
Scrap sales	**186**	165
Gain on disposal of property, plant and equipment	**84**	304
Gain on derecognition of a subsidiary	**—**	1,130
Net foreign exchange losses	**(791)**	(2,798)
Others	**1,912**	1,477
	1,902	294

6. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	(Unaudited) For the six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Depreciation		
— property, plant and equipment	**3,903**	3,987
— right-of-use assets	**586**	—
	4,489	3,987

7. INCOME TAX CREDIT

	(Unaudited) For the six months ended 30 June 2019 HK$'000	2018 HK$'000
Underprovision in prior years:		
PRC Enterprise Income tax	**28**	2
Deferred tax		
Current year	**(574)**	(1,699)
Total income tax credit recognised in profit or loss	**(546)**	(1,697)

8. DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (2018: Nil).

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the Group's loss for the period attributable to owners of the Company of approximately HK$26,485,000 (2018: HK$21,430,000) and the weighted average number of ordinary shares of 326,923,607 (2018: 326,923,607).

Diluted loss per share for the period ended 30 June 2019 and 2018 was the same as basic loss per share as there were no dilutive potential ordinary shares in issue for both periods.

10. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the period, the Group acquired property, plant and equipment of approximately HK$1,341,000 (2018: HK$1,221,000).

During the period, the Group transferred a leasehold land and building in property, plant and equipment to investment property as a result of the change of use of the leasehold land and building. Surplus on revaluation of the leasehold land and building upon transfer to investment property amounted to HK$16,101,000 has been recognized in other comprehensive income.

The fair value of the Group's investment property at 30 June 2019 was determined by the Directors with reference to recent transaction prices in the market for similar properties.

11. 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 impairment loss allowance at the end of the reporting period:

	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
0–60 days	**16,514**	15,883
61–90 days	**77**	1,162
91–120 days	**62**	29
Over 120 days	**—**	79
	16,653	17,153

12. TRADE AND OTHER PAYABLES

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

	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
0–60 days	**10,713**	7,257
61–90 days	**837**	611
91–120 days	**24**	22
Over 120 days	**1,016**	407
	12,590	8,297

13. AMOUNT DUE TO A DIRECTOR OF SUBSIDIARIES

The amount represented advance from a director of subsidiaries of the Company. It was conducted on normal commercial terms, interest-bearing at 4% per annum, unsecured, and with no fixed term of repayment.

14. CAPITAL COMMITMENTS

Capital commitments in respect of the acquisition of property, plant and equipment

	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
Contracted but not provided for	**5,420**	5,795

15. RELATED PARTY TRANSACTIONS

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

	(Unaudited) For the six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Rental expenses paid to:		
Mr. Poon Siu Chung *(Note)*	**60**	60
Proceeds received for disposal of property,plant and equipment to:		
Mr. Poon Siu Chung *(Note)*	**–**	2,200

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

(b) Compensation of key management personnel

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

	(Unaudited) For the six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Short-term benefits	**4,012**	4,036
Post-employment benefits	**39**	38
	4,051	4,074

16. EVENT AFTER THE REPORTING PERIOD

On 15 August 2019, the Company entered into a framework sale and purchase agreement with Sino-Science Netherlands Petroleum B.V., a company incorporated under the laws of Netherlands ("SSNP"), pursuant to which the Company has conditionally agreed to acquire more than 50% of the total participating interests or shares of Sozak Oil and Gas LLP, a limited liability partnership established under the laws of Kazakhstan. It is principally engaged in the exploration of oil and natural gas in South-Kazakhstan and Kyzylorda region and the petroleum assets are located in the Marsel Block in the Chu-Sarysu Basin of Kazakhstan which is currently under appraisal. The consideration for the acquisition shall be paid by the Company through a combination of cash, the allotment and issue of new shares of the Company and/or other forms of securities issued by the Company at a price to be agreed upon by SSNP and the Company. The material terms of the acquisition are yet to be agreed and are subject to the execution of the final definitive agreement. For details of the acquisition, please refer to the Company's announcement "Inside Information in Relation to Framework Sale and Purchase Agreement" dated 15 August 2019.

SHARE OPTION SCHEME

A share option scheme (the "Scheme") of the Company was adopted on 30 May 2012. The key terms of the Scheme had been summarized in the annual report of the Company for the year ended 31 December 2018.

At 30 June 2019, the number of shares available for issue under the Scheme of the Company were 32,692,360, representing approximately 10% of the shares of the Company in issue at that date.

There were no movements in the Company's share options during the six months ended 30 June 2019. There were no outstanding share options of the Company as at 1 January 2019 and 30 June 2019.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND OPTIONS

At 30 June 2019, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under 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") as set out in Appendix 10 to the Listing Rules, were as follows:

Long position 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 (approximately)
Mr. Gao Xiaorui	Interest of controlled corporation	119,297,041	–	119,297,041[a]	36.49

Note:

(a) For the purpose of Part XV of the SFO, as at 30 June 2019, Mr. Gao Xiaorui was deemed to be interested in 119,297,041 shares of the Company held by Fresh Choice Holdings Limited. 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 and chief executive of the Company or their respective 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 2019.

SUBSTANTIAL SHAREHOLDERS

Other than the interests as disclosed above in the section "Directors' and Chief Executive's Interests in Shares and Options", as at 30 June 2019, 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 issued shares of the Company as follows:

Long position 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 (approximately)
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) For the purpose of Part XV of the SFO, as at 30 June 2019, Mr. Zhai Jun was deemed to be interested in the 125,297,040 shares of the Company held by Star Fly Limited. Star Fly Limited is a limited company incorporated in the British Virgin Islands wholly owned by Mr. Zhai Jun.

(2) 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.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (2018: Nil).

BUSINESS REVIEW

Affected by the unresolved Sino-American trade disputes and the political instability in Europe, the Group's operating environment remained challenging in the first half of 2019. During the six months ended 30 June 2019, the Group's revenue was approximately HK$64,555,000 (2018: HK$59,691,000), representing an increase of about 8% as compared to the corresponding period last year. The Group recorded a loss for the period attributable to owners of the Company of approximately HK$26,485,000 (2018: loss of HK$21,430,000). The basic and diluted loss per share were both at 8.10 HK cents (2018: both 6.56 HK cents).

FINANCIAL REVIEW

For the six months ended 30 June 2019, the Group's core business recorded a loss of HK$14,877,000 (2018: HK$19,151,000). Detailed performance of each segment of the core business is discussed below.

Toy products

The revenue of toy products segment increased by about 9% year-on-year to approximately HK$61,511,000 (2018: HK$56,512,000), and accounted for about 95% of total revenue of the Group. The increase in revenue of this segment was primarily attributable to the increase in sales to customers in Asia (other than Hong Kong), which was partially offset by the decrease in sales to customers in the United States of America, Europe and Hong Kong. The loss of this segment reduced to approximately HK$11,135,000 (2018: HK$14,539,000). During the period, the production plant in Shenzhen was in the progress of relocation to Zhongshan and the relocation incurred staff compensation payments amounted to HK$9.8 million. The Group had implemented stringent cost control and strengthened production and operational efficiency so as to enhance the result of this segment.

FINANCIAL REVIEW (CONTINUED)

Novelties and decorations products

The revenue of the novelties and decoration products segment decreased by about 4% year-on-year to approximately HK$3,044,000 (2018: HK$3,179,000), which was mainly attributable to the decrease in sales to customers in the United States of America. The loss of this segment slightly improved to approximately HK$3,742,000 (2018: HK$4,612,000), as effective cost control measures were implemented by the Group.

Distribution costs and administrative expenses

Distribution costs increased by about 4% year-on-year to approximately HK$1,521,000 (2018: HK$1,466,000), which was in line with the increase in revenue of the Group. Administrative expenses increased by about 32% year-on-year to approximately HK$35,235,000 (2018: HK$26,616,000), which was mainly attributable to the increase in legal & professional costs incurred for the Possible Acquisitions and Proposed Acquisition, as further explained in the paragraph headed “Future plans for material investments” below, which amounted to approximately HK$8 million.

Finance costs

Finance costs increased to approximately HK$674,000 (2018: HK$7,000), as a result of the drawdown of banking facilities and the recognition of interest on lease liabilities during the period.

Liquidity and financial resources

As at 30 June 2019, the Group had amount due to a director of subsidiaries of approximately HK$13,864,000 (31 December 2018: Nil), short term bank borrowings of approximately HK$15,500,000 (31 December 2018: HK$7,000,000) and bank overdraft of approximately HK$2,437,000 (31 December 2018: HK$2,478,000). The Group’s gearing ratio, calculated on the basis of the aggregate of the amount due to a director of subsidiaries, bank borrowings and overdraft over the equity attributable to owners of the Company, was approximately 21.5% (31 December 2018: 6%).

As at 30 June 2019, the Group had bank balances and cash of approximately HK$67,282,000 (31 December 2018: HK$73,946,000). With total current assets as at 30 June 2019 of approximately HK$114,094,000 (31 December 2018: HK$107,948,000) as well as available banking facilities, the Group had sufficient financial resources to satisfy its commitments and working capital requirements.

FINANCIAL REVIEW (CONTINUED)

Pledge of Assets

As at 30 June 2019, the Group had pledged its leasehold land and buildings with carrying value of approximately HK$34,352,000 (31 December 2018: HK$61,436,000) and investment property of approximately HK$42,300,000 (31 December 2018: nil) to secure banking facilities granted to the Group.

Contingent Liabilities

There have been no changes in the Group's contingent liabilities since the year ended 31 December 2018.

Net asset value

The net asset value per share as at 30 June 2019 was approximately HK$0.45 (31 December 2018: HK$0.48), calculated on the basis of the equity attributable to owners of the Company of approximately HK$147,939,000 (31 December 2018: HK$158,311,000) over the actual number of shares in issue on that date of 326,923,607 (31 December 2018: 326,923,607).

Employees and remuneration policies

As at 30 June 2019, the Group employed approximately 790 (2018: 860) full time employees. The Group remunerates its employees primarily based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

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 30 June 2019, the Group did not enter into any financial instrument for the hedging of exposure in foreign currencies.

FINANCIAL REVIEW (CONTINUED)

Future plans for material investments

On 25 April 2019, the Company entered into a non-legally binding memorandum of understanding respectively with each of Hong Kong Sino-Science Energy Investment Company Limited, a company incorporated under the laws of Hong Kong ("First MOU") and Hong Kong Sino-Science International Oil & Gas Investment Group Company Limited, a company incorporated under the laws of Hong Kong ("Second MOU"). Pursuant to the First MOU, the Company intends to acquire 100% equity interest in Kozhan JSC ("Kozhan"), a joint stock company listed on the Kazakhstan Stock Exchange ("First Possible Acquisition"). Kozhan is principally engaged in oil exploration and production. The major assets owned by Kozhan include two oil fields in production located in Kazakhstan. Pursuant to the Second MOU, the Company intends to acquire interests in Sozak Oil and Gas LLP ("Sozak"), a limited liability partnership established under the laws of Kazakhstan, so that the Company's interests in Sozak will give it sufficient influence in decisions over the exploration and/or production activities of Sozak ("Second Possible Acquisition" and together with the First Possible Acquisition, collectively the "Possible Acquisitions"). For details of the Possible Acquisitions, please refer to the Company's announcement "Inside Information Memorandum of Understanding in Respect of the Possible Acquisitions" dated 25 April 2019.

On 15 August 2019, the Company entered into a framework sale and purchase agreement with SSNP, pursuant to which the Company has conditionally agreed to acquire more than 50% of the total participating interests or shares of Sozak ("Proposed Acquisition"). Sozak is principally engaged in the exploration of oil and natural gas in South-Kazakhstan and Kyzylorda region and the petroleum assets are located in the Marsel Block in the Chu-Sarysu Basin of Kazakhstan which is currently under appraisal. The consideration for the Proposed Acquisition shall be paid by the Company through a combination of cash, the allotment and issue of new shares of the Company and/or other forms of securities issued by the Company at a price to be agreed upon by SSNP and the Company. The material terms of the Proposed Acquisition are yet to be agreed and are subject to the execution of the final definitive agreement. For details of the Proposed Acquisition, please refer to the Company's announcement "Inside Information in Relation to Framework Sale and Purchase Agreement" dated 15 August 2019.

FINANCIAL REVIEW (CONTINUED)

Future plans for material investments (Continued)

As mentioned in the annual report of the Company for the year ended 31 December 2018, it is the intention of the Group to actively identify good merger and acquisition opportunities in order to acquire new business or assets that will bring additional value and new income streams to the Group. Leveraging on the extensive experience in the areas of oil and natural gas industry and corporate management, the Board believes that the Proposed Acquisition will help the Company navigate its business focus towards natural gas and clean energy to meet the growing natural gas demand in the PRC, and create long-term returns for the shareholders of the Company with enhanced values.

PROSPECT

The Sino-American trade disputes and the political instability in Europe are expected to cast uncertainty and challenges to the Group's operating environment in this year. The Directors are moving ahead cautiously. The Group will continue to optimise its product mix to meet the demand of the customers, strengthen production and operational efficiency, as well as implement stringent cost control measures in order to minimize the impact of these challenges.

Meanwhile, the Directors endeavour to materialize the Proposed Acquisition in order to bring additional value and new income streams to the Group, and create long-term returns for the shareholders of the Company with enhanced values.

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.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities whether on the Stock Exchange or otherwise.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the corporate governance code and amended it from time to time, based on the code provisions (the "Code Provisions") of the latest revised code on corporate governance as set out in Appendix 14 to the Listing Rules.

Throughout the six months ended 30 June 2019, the Company has complied with the Code Provisions.

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.

Specific enquiries have been made with all Directors and they have confirmed that throughout the six months ended 30 June 2019, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

AUDIT COMMITTEE

The Company has established an audit committee which comprises all independent non-executive Directors, Mr. Xie Xiaohong, Mr. Lam Tak Leung and Mr. Lau Shu Yan, who is also the chairman of the audit committee. The audit committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2019.

DIRECTORS OF THE COMPANY

At the date of this report, the Board is composed of Mr. Li Shaohua and Mr. Poon Wai Yip, Albert as executive Directors, Mr. Gao Xiaorui as non-executive Director, and Mr. Xie Xiaohong, Mr. Lau Shu Yan and Mr. Lam Tak Leung as independent non-executive Directors.

By order of the Board
Perfectech International Holdings Limited
Gao Xiaorui
Chairman

Hong Kong, 26 August 2019