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PERFECTECH INTERNATIONAL HOLDINGS LIMITED

威發國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00765)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

RESULTS

For the reasons explained below under “Review of Unaudited Annual Results”, the auditing process for the annual results of Perfectech International Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) has not been completed. In the meantime, the board (the “Board”) of directors (the “Directors”, and each a “Director”) of the Company hereby announces that unaudited consolidated results of the Group for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 HK\$'000 (unaudited)	2020 HK\$'000 (audited)
Revenue	3 & 4	186,211	162,041
Cost of sales		(129,225)	(107,919)
Gross profit		56,986	54,122
Other income, gains and losses, net	5	(1,327)	1,608
Impairment loss on property, plant and equipment		—	(2,458)
Fair value loss on an investment property		—	(3,571)
Distribution costs		(2,334)	(3,066)
Administrative expenses		(55,696)	(52,009)
Finance costs	6	(924)	(2,632)
Loss before tax	7	(3,295)	(8,006)
Income tax expense	8	(1,482)	(5,123)
Loss for the year		(4,777)	(13,129)

* *for identification purposes only*

	<i>Notes</i>	2021 HK\$'000 (unaudited)	2020 <i>HK\$'000</i> (audited)
Other comprehensive income:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>2,102</u>	<u>3,032</u>
Other comprehensive income for the year, net of tax		<u>2,102</u>	<u>3,032</u>
Total comprehensive expense for the year		<u><u>(2,675)</u></u>	<u><u>(10,097)</u></u>
(Loss) profit for the year attributable to:			
Owners of the Company		<u>(6,430)</u>	<u>(15,801)</u>
Non-controlling interests		<u>1,653</u>	<u>2,672</u>
Loss for the year		<u><u>(4,777)</u></u>	<u><u>(13,129)</u></u>
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		<u>(4,782)</u>	<u>(13,148)</u>
Non-controlling interests		<u>2,107</u>	<u>3,051</u>
Total comprehensive expense for the year		<u><u>(2,675)</u></u>	<u><u>(10,097)</u></u>
Loss per share	10		
Basic (HK cents per share)		<u><u>(1.97)</u></u>	<u><u>(4.83)</u></u>
Diluted (HK cents per share)		<u><u>(1.97)</u></u>	<u><u>(4.83)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		20,493	23,800
Right-of-use assets		13,614	12,450
Deferred tax assets		2,130	2,130
		<u>36,237</u>	<u>38,380</u>
CURRENT ASSETS			
Inventories		14,947	18,330
Trade and other receivables	11	32,678	24,074
Financial assets at fair value through profit or loss		10,516	13,391
Tax recoverable		1,295	—
Bank balances and cash		61,383	59,467
		<u>120,819</u>	<u>115,262</u>
Assets of a disposal group classified as held for sale		<u>—</u>	<u>67,175</u>
		<u>120,819</u>	<u>182,437</u>
CURRENT LIABILITIES			
Trade and other payables	13	24,274	53,423
Lease liabilities		1,158	297
Amount due to a director of subsidiaries	14	—	27,931
Tax liabilities		63	3,391
		<u>25,495</u>	<u>85,042</u>
Liabilities directly associated with a disposal group classified as held for sale	12	<u>—</u>	<u>204</u>
		<u>25,495</u>	<u>85,246</u>
NET CURRENT ASSETS		<u>95,324</u>	<u>97,191</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>131,561</u>	<u>135,571</u>
NON-CURRENT LIABILITY			
Lease liabilities		<u>13,261</u>	<u>12,685</u>
NET ASSETS		<u>118,300</u>	<u>122,886</u>

	<i>Notes</i>	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
CAPITAL AND RESERVES			
Share capital		32,692	32,692
Reserves		68,949	57,030
Amount recognised in other comprehensive income and accumulated in equity relating to non- current assets classified as held for sale	12	—	16,701
Equity attributable to owners of the Company		101,641	106,423
Non-controlling interests		16,659	16,463
TOTAL EQUITY		118,300	122,886

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period. 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 (“HK\$”), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the “Committee”) of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ³
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual improvements to HKFRSs 2018–2020 ²

¹ Effective for annual periods beginning on or after 1 April 2021.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ Effective date to be determined.

The management of the Group anticipates that the application of these new and amendments to HKFRSs will have no material impact on the Group's consolidated financial statements in the foreseeable future.

3. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to external customers, less returns and trade discounts during the year.

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Revenue from contracts with customers recognised at a point in time under HKFRS 15 <i>Revenue from Contracts with Customers</i> ("HKFRS 15"):		
Novelties and decoration products	6,933	9,926
Toy products	<u>179,278</u>	<u>152,115</u>
	<u><u>186,211</u></u>	<u><u>162,041</u></u>

4. SEGMENTS REPORTING

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

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

2021

	Novelties and decoration products <i>HK\$'000</i> (unaudited)	Toy products <i>HK\$'000</i> (unaudited)	Consolidated <i>HK\$'000</i> (unaudited)
REVENUE			
External sales and total revenue	<u>6,933</u>	<u>179,278</u>	<u>186,211</u>
RESULT			
Segment results	<u>(3,075)</u>	<u>14,499</u>	11,424
Loss on disposal of financial assets at fair value through profit or loss ("FVTPL")			(531)
Fair value loss on financial assets at FVTPL			(1,694)
Unallocated corporate expenses, net			(11,570)
Finance costs			<u>(924)</u>
Loss before tax			(3,295)
Income tax expense			<u>(1,482)</u>
Loss for the year			<u>(4,777)</u>
ASSETS			
Segment assets	27,438	115,263	142,701
Unallocated corporate assets			<u>14,355</u>
Consolidated total assets			<u>157,056</u>
LIABILITIES			
Segment liabilities	6,468	30,909	37,377
Unallocated corporate liabilities			<u>1,379</u>
Consolidated total liabilities			<u>38,756</u>

	Novelties and decoration products HK\$'000 (unaudited)	Toy products HK\$'000 (unaudited)	Unallocated HK\$'000 (unaudited)	Consolidated HK\$'000 (unaudited)
Additions of property, plant and equipment	432	1,823	19	2,274
Depreciation of property, plant and equipment	<u>159</u>	<u>5,757</u>	<u>191</u>	<u>6,107</u>
2020				
		Novelties and decoration products HK\$'000 (audited)	Toy products HK\$'000 (audited)	Consolidated HK\$'000 (audited)
REVENUE				
External sales and total revenue		<u>9,926</u>	<u>152,115</u>	<u>162,041</u>
RESULT				
Segment results		<u>(4,247)</u>	<u>17,358</u>	13,111
Gain on disposal of financial assets at FVTPL				37
Fair value gain on financial assets at FVTPL				529
Impairment loss on property, plant and equipment				(2,458)
Fair value loss on an investment property				(3,571)
Unallocated corporate expenses, net				(13,022)
Finance costs				<u>(2,632)</u>
Loss before tax				(8,006)
Income tax expense				<u>(5,123)</u>
Loss for the year				<u>(13,129)</u>

	Novelties and decoration products <i>HK\$'000</i> (audited)	Toy products <i>HK\$'000</i> (audited)	Consolidated <i>HK\$'000</i> (audited)
ASSETS			
Segment assets	19,900	105,990	125,890
Unallocated corporate assets			<u>94,927</u>
Consolidated total assets			<u><u>220,817</u></u>
LIABILITIES			
Segment liabilities	15,303	54,669	69,972
Unallocated corporate liabilities			<u>27,959</u>
Consolidated total liabilities			<u><u>97,931</u></u>

	Novelties and decoration products <i>HK\$'000</i> (audited)	Toy products <i>HK\$'000</i> (audited)	Unallocated <i>HK\$'000</i> (audited)	Consolidated <i>HK\$'000</i> (audited)
Additions of property, plant and equipment	—	2,031	48	2,079
Depreciation of property, plant and equipment	323	4,827	3,289	8,439
Depreciation of right-of-use assets	604	—	53	657
Interest income	26	38	139	203
Impairment loss on property, plant and equipment	—	—	2,458	2,458
Fair value loss on an investment property	—	—	3,571	3,571
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Segment result represents the result produced by each segment without allocation of central administration costs including directors' salaries, other income, finance costs, and income tax expense. 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 certain financial assets, which are held for central administrative purpose. 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 certain financial liabilities incurred for central administrative purpose. 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 customers are detailed below:

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Hong Kong	9,301	6,105
Europe	16,131	11,780
United States of America	25,097	10,852
Asia (other than Hong Kong)	133,597	132,466
Others	2,085	838
	<u>186,211</u>	<u>162,041</u>

The following is an analysis of the carrying amount of segment assets and additions to non-current assets, analysed by the geographical area in where the assets are located:

	Carrying amount of segment assets		Additions to non-current assets	
	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Hong Kong	99,631	147,487	208	48
People's Republic of China ("PRC")	57,425	73,330	2,066	2,031
	<u>157,056</u>	<u>220,817</u>	<u>2,274</u>	<u>2,079</u>

Note: Non-current assets excluded defined tax assets and right-of-use assets.

Information about major customers

Included in revenue arising from sales of toy products of approximately HK\$179,278,000 (2020: HK\$152,115,000) is revenue of approximately HK\$168,779,000 (2020: HK\$141,514,000) which arose from sales to the Group's largest customer, representing approximately 91% (2020: 87%) of the total revenue. No other single customer contribute 10% or more to the Group's revenue.

5. OTHER INCOME, GAINS AND LOSSES, NET

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Interest income		
— bank deposits	24	203
— financial assets at FVTPL	295	—
Rental income	—	840
Scrap sales (<i>Note</i>)	1,969	550
Gain on disposal of property, plant and equipment	23	25
Gain on disposal of Disposal Group classified as held for sale	249	—
Loss on deregistration of a subsidiary	(2,021)	—
Property, plant and equipment written off	—	(1)
(Loss) gain on disposal of financial assets at FVTPL	(531)	37
Fair value (loss) gain on financial assets at FVTPL	(1,694)	529
Expected credit loss (“ECL”) on other receivables	(22)	—
Net foreign exchange losses	(1,437)	(3,000)
Gain on termination of a lease	—	27
Tooling income (<i>Note</i>)	689	921
Transportation income (<i>Note</i>)	82	88
Subsidies income from the PRC government	261	897
Laboratory testing income (<i>Note</i>)	202	375
Others	584	117
	<u>(1,327)</u>	<u>1,608</u>

Note: These income are the revenue from contracts with customers recognised at a point in time under HKFRS 15.

6. FINANCE COSTS

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Interest on:		
Bank borrowings	—	114
Lease liabilities	778	780
Amount due to a director of subsidiaries	146	1,738
	<u>924</u>	<u>2,632</u>

7. LOSS BEFORE TAX

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Loss before tax has been arrived at after charging (crediting):		
Auditor's remuneration	1,075	1,075
Cost of inventories recognised as an expense	38,275	34,882
Depreciation of property, plant and equipment	8,439	8,439
Depreciation of right-of-use assets	1,322	657
Expenses related to disposal of subsidiaries	43	496
Short-term operating lease rentals in respect of rented premises	778	952
Gross rental income from investment property	—	(815)
Less: Direct operating expenses incurred for investment property that generated rental income during the year	—	81
	—	(734)
Staff costs (including directors' emoluments)		
— Salaries, allowances and retirement benefits scheme contributions	89,010	81,320
— Government grants under Employment Support Scheme	—	(1,233)

8. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Current tax:		
Hong Kong Profits Tax	1,530	3,366
PRC Enterprise Income Tax	93	90
	1,623	3,456
(Over) under provision in prior years:		
Hong Kong Profits Tax	(159)	100
PRC Enterprise Income Tax	18	9
	(141)	109
Deferred tax:		
Current year	—	1,558
Total income tax expense recognised in profit or loss	1,482	5,123

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

The tax charge for the year can be reconciled to the loss before tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Loss before tax	<u>(3,295)</u>	<u>(8,006)</u>
Tax at Hong Kong Profits Tax rate of 16.5%	(544)	(1,321)
Tax effect of income not taxable for tax purposes	(388)	(1,704)
Tax effect of expenses not deductible for tax purposes	2,604	5,373
Tax effect on temporary differences not recognised	(1,445)	1,655
Tax effect on tax losses not recognised	3,227	2,434
Tax effect on tax reduction	(463)	(350)
Utilisation of tax losses not previously recognised	(1,221)	(838)
(Over) under provision in respect of prior years	(141)	109
Effect of different tax rates of subsidiaries operating in the PRC	(39)	(235)
Effect of two-tiered tax rate	<u>(108)</u>	<u>—</u>
Tax charge for the year	<u>1,482</u>	<u>5,123</u>

9. DIVIDENDS

The Board does not recommend the payment of a final dividend for the years ended 31 December 2021 and 2020.

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the Group’s loss for the year attributable to owners of the Company of approximately HK\$6,430,000 (2020: HK\$15,801,000) and the number of ordinary shares in issue of 326,923,607 (2020: 326,923,607).

Diluted loss per share for the years ended 31 December 2021 and 2020 was the same as basic loss per share as there were no dilutive potential ordinary shares in issue for both years.

11. TRADE AND OTHER RECEIVABLES

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Trade receivables	28,454	20,123
Less: ECL on trade receivables	<u>(79)</u>	<u>(79)</u>
	<u>28,375</u>	<u>20,044</u>
Other receivables:		
Prepayment	948	860
Rental, utility and other deposits	930	399
Cash deposit in broker's account	1,135	121
Sundry debtors and others (<i>Note</i>)	1,312	2,650
Less: ECL on receivables	<u>(22)</u>	<u>—</u>
	<u>4,303</u>	<u>4,030</u>
	<u>32,678</u>	<u>24,074</u>

Note: The balances mainly include value added tax refundable on export sales in the PRC.

Revenue from contracts with customers, included in the trade receivables were:

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Balance at the beginning of the year	<u>20,044</u>	<u>9,675</u>
Balance at the end of the year	<u>28,375</u>	<u>20,044</u>

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 ECL at the end of the reporting period:

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
0–60 days	25,054	18,134
61–90 days	1,764	184
91–120 days	1,516	1,262
Over 120 days	<u>41</u>	<u>464</u>
	<u>28,375</u>	<u>20,044</u>

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:

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Overdue by:		
0–60 days	4,170	5,983
61–90 days	1,516	1,262
91–120 days	41	464
	<u>5,727</u>	<u>7,709</u>

The movements in the allowance for ECL on trade and other receivables:

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Balance at the beginning of the year	79	79
Allowance for ECL recognised during the year	22	—
	<u>101</u>	<u>79</u>

In determining the recoverability of a trade and other receivable, the Group considers any change in the credit quality of the trade and other receivable from the date credit was initially granted up to the end of the reporting period.

12. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 24 September 2020, Perfectech International (B.V.I.) Limited (the “Vendor”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Grand Oasis Ventures Limited (the “Purchaser”) relating to disposal of the entire issued share capital of Perfect Skill Limited (“Perfect Skill”), an indirectly wholly-owned subsidiary of the Company, and all obligations, liabilities and debts owing or incurred by Perfect Skill to the Company (the “Disposal Group”) by the Vendor to the Purchaser (the “Disposal”) at a consideration of HK\$67,100,000 in cash. The assets and liabilities attributable to the Disposal Group have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position at 31 December 2020. The Disposal Group are included in the Group's unallocated corporate activities for segment reporting purposes for the year ended 31 December 2020.

The major classes of assets and liabilities of the Disposal Group classified as held for sale are as follows:

	2020 <i>HK\$'000</i> (audited)
Property, plant and equipment	30,471
Investment property	36,329
Other receivables	41
Bank balances and cash	334
	<hr/>
Assets of a disposal group classified as held for sale	67,175
	<hr/>
Other payables	(204)
	<hr/>
Liabilities directly associated with a disposal group classified as held for sale	(204)
	<hr/>

Cumulative property revaluation reserve amount of HK\$16,701,000 relating to the Disposal Group classified as held for sale has been separately presented in equity at 31 December 2020.

The Disposal was completed on 10 February 2021 and gain of HK\$249,000 was recognised in other income, gains and losses, net in the consolidated financial statements.

13. 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:

	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (audited)
Trade payables:		
0–60 days	10,332	10,292
61–90 days	1,748	1,387
91–120 days	361	154
Over 120 days	490	1,160
	<hr/>	<hr/>
	12,931	12,993
	<hr/>	<hr/>
Other payables:		
Accrued salary, bonus and commission	8,042	7,741
Contract liabilities (<i>Note</i>)	1,145	2,880
Deposit received from the disposal of subsidiaries	—	26,720
Accrued expenses and others	2,156	3,089
	<hr/>	<hr/>
	11,343	40,430
	<hr/>	<hr/>
	24,274	53,423
	<hr/>	<hr/>

The average credit period on purchases of 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.

Note: The contract liabilities primarily relate to the deposits or payments received in advance from customer for novelties and decoration products and toys products on request.

The following table shows how much of the revenue recognised relates to brought-forward contract liabilities.

	2021 HK\$'000 (unaudited)	2020 <i>HK\$'000</i> (audited)
Revenue recognised that was included in the contract liabilities balance at the beginning of the year:		
— Toys products	2,169	2,183
— Novelties and decoration products	<u>—</u>	<u>27</u>
	<u>2,169</u>	<u>2,210</u>

The decrease in contract liabilities as at 31 December 2021 was mainly due to a decrease in customers' sale orders for novelties and decoration products segment.

14. AMOUNT DUE TO A DIRECTOR OF SUBSIDIARIES

As at 31 December 2021, no amount was due to Ms. Lau Kwai Ngor (2020: HK\$22,000,000 and RMB4,300,000). It was conducted on normal commercial terms, bearing interest at a rate of 4% per annum, unsecured, and repayable on demand. The amount had been fully repaid in February 2021.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the eligibility of shareholders to attend and vote at the annual general meeting of the Company (“AGM”), the register of members of the Company will be closed from 9 June 2022, Thursday to 16 June 2022, Thursday (both dates inclusive). During the closure period, no share transfer will be registered. In order to be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong at Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on 8 June 2022, Wednesday.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Affected by the outbreak of Coronavirus Disease 2019 (the “COVID-19”) pandemic, the Group’s operating environment remained challenging in 2021. For the year ended 31 December 2021, the Group’s revenue rose by about 15% year-on-year to approximately HK\$186,211,000 (2020: HK\$162,041,000) despite facing a tough operating environment. The increase in revenue was driven by growth in sales of toy products, which offset decline in sales of novelties and decoration products. The Group recorded a loss for the year ended 31 December 2021 attributable to owners of the Company of approximately HK\$6,430,000 (2020: HK\$15,801,000). The basic and diluted loss per share were both at 1.97 HK cents (2020: both 4.83 HK cents).

For the year ended 31 December 2021, the Group’s core business recorded a profit of approximately HK\$11,424,000 (2020: HK\$13,111,000). The performance of each segment of the core business is discussed below.

Toy products

The revenue of toy products segment increased by about 18% year-on-year to approximately HK\$179,278,000 (2020: HK\$152,115,000), and accounted for about 96% of total revenue of the Group. The increase in revenue of this segment was primarily driven by the higher sales in the United States of America, Europe and Asia. The profit of this segment was reduced to approximately HK\$14,499,000 (2020: HK\$17,358,000) as the gross profit and gross profit margin decreased, as a result of the increase in the costs of raw materials, cost of subcontracting and social insurance for the production staff in the PRC.

Novelties and decoration products

The revenue of the novelties and decoration products segment decreased by about 30% year-on-year to approximately HK\$6,933,000 (2020: HK\$9,926,000) and the loss of this segment was approximately HK\$3,075,000 (2020: HK\$4,247,000). It was mainly attributable to the decline in demand of novelties and decoration products in Europe.

Distribution costs and administrative expenses

Distribution costs decreased by about 24% year-on-year to approximately HK\$2,334,000 (2020: HK\$3,066,000) as a result of stringent cost control measures implemented by the Group.

Administrative expenses mainly comprised staff costs (including directors' emoluments), social insurance for the administrative staff in the PRC, depreciation of property, plant and equipment and right-of-use assets, legal and professional fee and other administrative expenses. The increase in administrative expenses by about 7% to approximately HK\$55,696,000 (2020: HK\$52,009,000), which was mainly attributable to the increase in staff costs and social insurance for the administrative staff in the PRC.

Finance costs

Finance costs decreased by about 65% to approximately HK\$924,000 (2020: HK\$2,632,000), as a result of the decrease in interest on amount due to a director of subsidiaries.

Liquidity and financial resources

As at 31 December 2021, no amount was due to a director of subsidiaries by the Group (31 December 2020: HK\$27,931,000). The Group's gearing ratio, calculated on the basis of the aggregate of the amount due to a director of subsidiaries over the equity attributable to owners of the Company was 0% (31 December 2020: 26%).

As at 31 December 2021, the Group had bank balances and cash of approximately HK\$61,383,000 (31 December 2020: HK\$59,467,000). With total current assets as at 31 December 2021 of approximately HK\$120,819,000 (31 December 2020: HK\$182,437,000), 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 2021 was approximately HK\$0.31 (31 December 2020: HK\$0.33), calculated on the basis of the equity attributable to owners of the Company of approximately HK\$101,641,000 (31 December 2020: HK\$106,423,000) over the outstanding number of ordinary shares in issue on 31 December 2021 of 326,923,607 (31 December 2020: 326,923,607).

Disposal of subsidiaries

As disclosed in note 12 to the financial statements, on 24 September 2020, Perfectech International (B.V.I.) Limited (the “Vendor”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Grand Oasis Ventures Limited relating to the disposal of the entire issued share capital of Perfect Skill Limited (“Perfect Skill” and together with its subsidiaries collectively referred to as the “Disposal Group”), an indirectly wholly-owned subsidiary of the Company, and all obligations, liabilities and debts owing or incurred by Perfect Skill to the Vendor at the consideration of approximately HK\$67,100,000. The principal assets in the Disposal Group were leasehold land and buildings of approximately HK\$30,471,000 and investment property of approximately HK\$36,329,000 as at 31 December 2020. The assets and liabilities attributable to the Disposal Group were classified as a disposal group held for sale and presented separately in the consolidated statement of financial position of the Group as at 31 December 2020. The transaction was completed on 10 February 2021.

Significant investments

As at 31 December 2021, the Group held financial assets at FVTPL amounted to approximately HK\$10,516,000 (31 December 2020: HK\$13,391,000), including equity securities listed in Hong Kong of HK\$461,000 (31 December 2020: HK\$158,000), debt securities listed outside Hong Kong of approximately HK\$1,580,000 (31 December 2020: HK\$3,094,000) and unlisted managed funds of approximately HK\$8,475,000 (31 December 2020: HK\$10,139,000). Loss on disposal of financial assets at FVTPL amounted to approximately HK\$531,000 (2020: gain of HK\$37,000) and fair value loss on financial assets at FVTPL amounted to approximately HK\$1,694,000 (2020: gain of HK\$529,000) during the year ended 31 December 2021.

Pledge of assets

The Group did not have any pledged asset as at 31 December 2021 and 2020.

Employees and remuneration policies

As at 31 December 2021, the Group employed approximately 690 (2020: 700) 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 purchases are mainly denominated in Renminbi ("RMB") and Hong Kong Dollar (the "Hong Kong Dollar") while the Group's sales are mainly denominated in RMB and United States Dollar (the "US Dollar"). As all of its factories are located in the PRC, expenses incurred there are denominated in RMB. 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 2021, the Group did not enter into any financial instrument for the hedging of exposure in foreign currencies.

Future Plans for Material Investments

As referred to in the Company's announcement titled "Inside Information in Relation to Framework Sale and Purchase Agreement" dated 15 August 2019 and further discussed in the annual report of the Company for the year ended 31 December 2020, 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 JSC (formerly known as Sozak Oil and Gas LLP) ("Sozak"), established under the laws of Kazakhstan ("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.

Up to the date of this announcement, the Directors of the Company are still in the course of negotiating material terms with SSNP and making appropriate arrangements for the Proposed Acquisition, with the aim of materialising the Proposed Acquisition as soon as practicable.

As referred to in the Company's announcement dated 18 March 2021 concerning the BOINC strategic cooperation agreement entered into between the Company, California Super Computing Network Technology, Inc. and Affluence Energy Holding SARL and the Chainup strategic cooperation agreement entered into between the Company, Chainup Pte. Ltd. and Sozak; and Company's announcement dated 31 March 2021 concerning the DCOIN strategic cooperation agreement entered into between the Company and Davox Technology AG (the BOINC strategic cooperation agreement, together with the Chainup strategic cooperation agreement and DCOIN strategic cooperation agreement, collectively referred to as the "Strategic Cooperation Agreements"), the Company entered into the Strategic Cooperation Agreements with relevant parties with the aim of diversifying into the business in the field of blockchain and cryptocurrency.

As at the date of this announcement, the Company and the parties to the Strategic Cooperation Agreements have not yet conducted any transactions. Any possible cooperation contemplated under the Strategic Cooperation Agreements can be carried out only after the Company enters into a final agreements with the relevant parties involved. Since the cooperation may not necessarily proceed, shareholders and prospective investors of the Company are advised to exercise caution when trading in the Company's shares.

The Company will make further announcements regarding the project development under the Strategic Cooperation Agreements in compliance with the Listing Rules.

Prospect

The Board of the Directors of the Company believes that the entering into of the Strategic Cooperation Agreements, subject to the execution of the final agreements with the parties involved, will be conducive to facilitating the Group to commence business in the field of blockchain and cryptocurrency. The parties involved will jointly boost the development of the blockchain technology and the industry with their respective capital, platform and resources advantages.

While pushing forward with the business in the field of blockchain and cryptocurrencies, the Company will continue to look for more quality mergers and acquisitions and integration opportunities in the field of oil and gas exploration and production, and develop into a resource integration company with energy as its core business.

The Directors endeavour to materialise the Proposed Acquisition and the Strategic Cooperation Agreements in order to bring additional value and new income streams to the Group, and create long-term returns for the shareholders of the Company ("Shareholders") with enhanced values.

Meanwhile, the outbreak of the COVID-19 pandemic is expected to continue to cast uncertainty and challenges on the Group's operating environment in the coming 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 management in order to minimise the impact of these challenges.

With the joint efforts of all of its employees, the Group endeavors to maintain a good business relationship with its customers, business partners and Shareholders to maximise its corporate value and deliver promising returns to its Shareholders.

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" (the "Model Code") contained in Appendix 10 to the Listing Rules.

Following specific enquiry by the Group, all Directors have confirmed that throughout the year ended 31 December 2021, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

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

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its shares whether on The Stock Exchange of Hong Kong Limited or otherwise.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2021, the Company has complied with the code provisions (the "Code Provisions") set out in the "Corporate Governance Code and Corporate Governance Report" in Appendix 14 (the "Code") to the Listing Rules save for the following deviation:

Code Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

After the resignation of Ms. Zhu Yuqi as the non-executive director, the chairman of the Board (the "Chairman") and the chairman of the nomination committee of the Company on 15 December 2020, the duties of the Chairman have been undertaken by all members of the Board and the company secretary of the Company (the "Company Secretary") collectively.

The Board believes that with the support of the management, vesting the role of the Chairman in the Board and the Company Secretary collectively can facilitate the execution of the Group's business strategies and enhance the effectiveness of its operation. Further, the Board considers that the current structure will enhance the balance of power and authority between the Board and the management of the Group as the Board, which comprises experienced and high calibre individuals who met regularly to discuss issues pertaining to the operations of the Company, assumes collective responsibility on the decision making process of the Company's business strategies and operation.

The Board is in the process of identifying a suitable candidates with appropriate experience to act as the Chairman, before which the duties of the Chairman will continue to be undertaken by the Directors and the Company Secretary collectively.

Code Provision C.5.1 of the Code stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

The Board has held three regular meetings and has passed five written resolutions in total in the year ended 31 December 2021. Having safety concern regarding the COVID-19 pandemic, the Board decided not to hold physical meetings as per its usual practise. Nonetheless, the Directors had actively communicated their views to each other or had, through the Company Secretary, communicated their opinions on matters to be considered by the Board. As such, the Board considers that the decisions made by the Board during the year ended 31 December 2021 were informed decisions after active participation and meaningful discussions among the Directors.

The Board will hold meetings by way of physical or electronic meeting as and when the Board believes that such meeting will enhance discussions among the Directors and with regard to the latest COVID-19 pandemic situation.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the Group's unaudited consolidated financial statements for the year ended 31 December 2021, including the accounting policies, principles and practices adopted by the Group.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2021 has not been completed due to travel restrictions in force in parts of the PRC and quarantine measures imposed by the relevant authorities to combat the COVID-19 outbreak. The unaudited results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results for the year ended 31 December 2021 will be made as soon as the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The unaudited annual results contained herein have been reviewed by the Audit Committee.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for the year ended 31 December 2021 as agreed by the Company's auditors and explanations on the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process.

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.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

On behalf of the Board
Li Shaohua
Executive Director

Hong Kong, 30 March 2022

As at the date of this announcement, the Board is composed of Mr. Li Shaohua and Mr. Poon Wai Yip, Albert as executive Directors and Mr. Lau Shu Yan, Mr. Xie Xiaohong and Mr. Geng Jianhua as independent non-executive Directors.