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PERFECTECH INTERNATIONAL HOLDINGS LIMITED

威發國際集團有限公司*

(the “Company”)

(incorporated in Bermuda with limited liability)

(Stock Code: 765)

**ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

INTERIM RESULTS

The directors of the Company (the “Directors”) hereby announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014 and the comparative figures in 2013 were as follow:

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

For the six months ended 30 June 2014

		(Unaudited)	
		For the six months	
		ended 30 June	
		2014	2013
	<i>Notes</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
			(Restated)
Continuing operations			
Revenue	2 & 3	89,533	83,030
Cost of sales		(70,312)	(64,171)
Gross profit		19,221	18,859
Net other income (expenses)	4	4,614	(4,940)
Distribution costs		(2,190)	(2,677)
Administrative expenses		(19,352)	(16,922)
Finance costs		(184)	(90)

* *for identification purpose only*

		(Unaudited)	
		For the six months	
		ended 30 June	
		2014	2013
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
			(Restated)
Profit (loss) before tax	5	2,109	(5,770)
Income tax (expenses) credit	6	(138)	996
		<hr/>	<hr/>
Profit (loss) for the period from continuing operations		1,971	(4,774)
Discontinued operation			
Loss for the period from discontinued operation	7	–	(4,463)
		<hr/>	<hr/>
Profit (loss) for the period		1,971	(9,237)
		<hr/>	<hr/>
Other comprehensive (expenses) income			
Exchange differences on translation of overseas operations		(141)	157
		<hr/>	<hr/>
Total comprehensive income (expenses) for the period		1,830	(9,080)
		<hr/> <hr/>	<hr/> <hr/>
Profit (loss) for the period attributable to:			
Owners of the Company		1,100	(9,902)
Non-controlling interests		871	665
		<hr/>	<hr/>
Profit (loss) for the period		1,971	(9,237)
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income (expenses) for the period attributable to:			
Owners of the Company		969	(9,768)
Non-controlling interests		861	688
		<hr/>	<hr/>
Total comprehensive income (expenses) for the period		1,830	(9,080)
		<hr/> <hr/>	<hr/> <hr/>

(Unaudited)
For the six months
ended 30 June

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Earnings (loss) per share	9		
From continuing and discontinued operations			
Basic		<u>0.38 cent</u>	<u>(3.69) cents</u>
Diluted		<u>0.37 cent</u>	<u>(3.69) cents</u>
From continuing operations			
Basic		<u>0.38 cent</u>	<u>(2.03) cents</u>
Diluted		<u>0.37 cent</u>	<u>(2.03) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		(Unaudited) 30 June 2014 <i>HK\$'000</i>	(Audited) 31 December 2013 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		67,162	63,818
Investment property		11,400	11,400
Deferred tax assets		5,883	4,140
Deferred rental income		2	5
		<hr/> 84,447 <hr/>	<hr/> 79,363 <hr/>
CURRENT ASSETS			
Inventories		39,409	26,527
Trade and other receivables	10	32,137	32,986
Deferred rental income		5	5
Amount due from a related company		–	62
Tax recoverable		362	362
Investments held-for-trading		45,493	46,675
Derivative financial instruments		161	175
Financial assets designated as at fair value through profit or loss		–	1,299
Pledged bank deposits		10,701	6,746
Bank balances and cash		35,014	86,406
		<hr/> 163,282 <hr/>	<hr/> 201,243 <hr/>
CURRENT LIABILITIES			
Trade and other payables	11	39,643	35,917
Derivative financial instruments		995	945
Tax liabilities		3,564	6,829
Bank borrowings – due within one year		15,711	21,918
		<hr/> 59,913 <hr/>	<hr/> 65,609 <hr/>
NET CURRENT ASSETS		<hr/> 103,369 <hr/>	<hr/> 135,634 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 187,816 <hr/>	<hr/> 214,997 <hr/>

	(Unaudited) 30 June 2014 <i>Notes</i> HK\$'000	(Audited) 31 December 2013 <i>HK\$'000</i>
NON CURRENT LIABILITIES		
Deferred tax liabilities	<u>326</u>	<u>368</u>
NET ASSETS	<u>187,490</u>	<u>214,629</u>
CAPITAL AND RESERVES		
Share capital	29,312	29,012
Reserves	<u>145,385</u>	<u>171,897</u>
Equity attributable to owners of the Company	174,697	200,909
Non-controlling interests	<u>12,793</u>	<u>13,720</u>
TOTAL EQUITY	<u>187,490</u>	<u>214,629</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

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 2013 except as described below.

In the current period, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2014 as follows:

HKFRS 10, HKFRS 12 and HKFRS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)	Levies

The adoption of these new HKFRSs had no material effect on how the results and financial position of the Group for the current or prior accounting periods would have been prepared and presented. Accordingly, no prior period adjustment is required.

2. BUSINESS SEGMENTS

For management purposes, the Group’s business is currently divided into two segments, namely, manufacture and sale of (i) novelties and decorations and (ii) toy products.

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

For the six months ended 30 June 2014 (Unaudited)

	Novelties and decorations products	Toy products	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE				
External sales	11,649	77,884	–	89,533
Inter-segment sales	–	7	(7)	–
	<u>11,649</u>	<u>77,891</u>	<u>(7)</u>	<u>89,533</u>
Total revenue	<u>11,649</u>	<u>77,891</u>	<u>(7)</u>	<u>89,533</u>
RESULT				
Segment results	<u>(8,131)</u>	<u>9,191</u>	<u>–</u>	1,060
Profit from investments				2,613
Unallocated corporate expenses				(1,380)
Finance costs				(184)
				<u>2,109</u>
Profit before tax				2,109
Income tax expenses				(138)
				<u>1,971</u>
Profit for the period				<u>1,971</u>

Inter-segment sales are charged at prevailing market rates.

As at 30 June 2014 (Unaudited)

	Novelties and decorations products	Toy products	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Segment assets	49,749	82,341	132,090
Unallocated corporate assets			115,639
			<u>247,729</u>
Consolidated total assets			<u>247,729</u>
LIABILITIES			
Segment liabilities	21,494	26,521	48,015
Unallocated corporate liabilities			12,224
			<u>60,239</u>
Consolidated total liabilities			<u>60,239</u>

OTHER INFORMATION*For the six months ended 30 June 2014 (Unaudited)*

	Novelties and decorations products	Toy products	Others	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital additions	503	6,587	–	7,090
Depreciation and amortisation	717	2,092	787	3,596
Interest income	7	8	186	201

For the six months ended 30 June 2013 (Unaudited) (Restated)

	Novelties and decorations products	Toy products	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE				
External sales	11,659	71,371	–	83,030
Inter-segment sales	–	–	–	–
Total revenue	<u>11,659</u>	<u>71,371</u>	<u>–</u>	<u>83,030</u>
RESULT				
Segment results	<u>(6,371)</u>	<u>7,777</u>	<u>–</u>	1,406
Loss from investments				(5,681)
Unallocated corporate expenses				(1,405)
Finance costs				(90)
Loss before tax				(5,770)
Income tax credit				996
Loss for the period				<u>(4,774)</u>

Inter-segment sales are charged at prevailing market rates.

As at 31 December 2013 (Audited)

	Novelties and decorations products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS			
Segment assets	56,806	102,165	158,971
Unallocated corporate assets			104,532
Assets relating to packaging products			17,103
			<hr/>
Consolidated total assets			280,606
			<hr/> <hr/>
LIABILITIES			
Segment liabilities	13,931	29,594	43,525
Unallocated corporate liabilities			20,755
Liabilities relating to packaging products			1,697
			<hr/>
Consolidated total liabilities			65,977
			<hr/> <hr/>

OTHER INFORMATION

For the six months ended 30 June 2013 (Unaudited) (Restated)

	Novelties and decorations products <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	875	1,834	–	2,709
Depreciation and amortisation	816	1,975	6	2,797
Interest income	9	6	1	16

Information about major customer

Included in revenues arising from sales of toys products of approximately HK\$77,884,000 (2013: HK\$71,371,000) are revenues of approximately HK\$73,697,000 (2013: HK\$41,433,000) which arose from sales to the Group's largest customer.

3. GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's sales by geographical segments:

	(Unaudited)	
	For the six months	
	ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales revenue by geographical market:		
Hong Kong	6,908	14,323
Europe	15,445	19,148
America	17,736	13,800
Asia (other than Hong Kong)	49,311	35,310
Others	133	449
	<u>89,533</u>	<u>83,030</u>

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

	(Unaudited)	(Audited)
	30 June	31 December
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	145,708	188,644
The People's Republic of China (the "PRC")	102,021	91,962
	<u>247,729</u>	<u>280,606</u>

The following is analysis of the additions to property, plant and equipment analysed by geographical areas in which the assets are located:

	(Unaudited)	
	For the six months	
	ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	1,014	650
The PRC	6,076	2,059
	<u>7,090</u>	<u>2,709</u>

4. NET OTHER INCOME (EXPENSES)

	(Unaudited)	
	For the six months	
	ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Dividend income on investments held-for-trading	1,204	974
Gain on disposal of property, plant and equipment	220	–
Interest income	201	16
Net change in fair value of investments held-for-trading	585	(7,025)
Net change in fair value of derivative financial instruments	(64)	1,894
Rental income	89	89
Realised gain (loss) on disposal of investments held-for-trading	776	(1,526)
Realised loss on disposal of financial assets designated as at fair value through profit or loss	(47)	–
Others	1,650	638
	4,614	(4,940)

5. PROFIT (LOSS) BEFORE TAX

Continuing operations

Profit (loss) before tax has been arrived after charging:

	(Unaudited)	
	For the six months	
	ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	3,596	2,797

6. INCOME TAX (EXPENSES) CREDIT (RELATING TO CONTINUING OPERATIONS)

(Unaudited)

**For the six months
ended 30 June**

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>

Tax charge comprises:

Current tax:

Hong Kong Profits Tax	(1,844)	(1,023)
PRC Enterprise Income tax	(86)	(47)
	<hr/>	<hr/>
	(1,930)	(1,070)

Over provision in prior years:

Hong Kong Profits Tax	7	–
PRC Enterprise Income tax	–	–
	<hr/>	<hr/>
	7	–

Deferred tax:

Current year	1,785	2,066
	<hr/>	<hr/>

Total income tax (expenses) credit recognised in profit or loss	(138)	996
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is stated at 16.5% of the estimated assessable profits for both periods.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both periods.

7. DISCONTINUED OPERATION

Discontinue of manufacture and sale of packaging products

In 2013, the board had resolved to terminate the operation of manufacture and sale of packaging products as a result of its poor performance and the lack of sign of improvement in the future.

(Unaudited)
For the six months
ended 30 June
2013
HK\$'000

Loss for the period from discontinued operation	
Revenue	8,785
Cost of sales	(8,199)
	<hr/>
Gross profit	586
Net other income	445
Distribution costs	(575)
Administrative expenses	(4,914)
	<hr/>
Loss before tax	(4,458)
Income tax expenses	(5)
	<hr/>
Loss for the period from discontinued operation	(4,463)
	<hr/> <hr/>
Loss for the period from discontinued operation attributable to	
Owners of the Company	(4,463)
Non-controlling interests	–
	<hr/>
	(4,463)
	<hr/> <hr/>
Loss for the period has been arrived after charging:	
Depreciation of property, plant and equipment	958
Loss on disposals of property, plant and equipment	851
	<hr/> <hr/>
Cash Flows from discontinued operation	
Net cash used in operating activities	(1,734)
Net cash from investing activities	1,887
	<hr/>
Net increase in cash and cash equivalents	153
	<hr/> <hr/>

8. DIVIDENDS

(Unaudited)	
For the six months ended 30 June	
2014	2013
<i>HK\$'000</i>	<i>HK\$'000</i>

Final and special paid:

HK10.0 cents per share for 2013

(2013: HK11.0 cents per share for 2012)

29,311	31,880
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The Directors have resolved to declare an interim dividend of HK1.0 cent (2013: HK1.0 cent) per share.

9. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company is based on the net profit for the period of approximately HK\$1,100,000 (2013: loss of HK\$9,902,000) and the following data:

(Unaudited)		
For the six months ended 30 June		
2014	2013	
Weighted average number of ordinary shares for the purposes of basic earnings per share	292,922,237	268,215,981
Effect of dilutive potential ordinary shares:		
Share options	5,601,527	8,818,135
Weighted average number of ordinary shares for the purposes of diluted earnings per share	298,523,764	277,034,116

Diluted loss per share for the period ended 30 June 2013 is the same as basic loss per share because the share options outstanding had an anti-dilutive effect in the calculation of diluted loss per share.

From continuing operations

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company is based on the net profit for the period of approximately HK\$1,100,000 (2013: loss of HK\$5,439,000) and the denominators detailed above.

Loss figure for the period ended 30 June 2013 is calculated as follows:

	2013 <i>HK\$'000</i>
Loss for the period attributable to owners of the Company	(9,902)
Add: Loss for the period from discontinued operations	4,463
	<hr/>
	(5,439)
	<hr/> <hr/>

Diluted loss per share for the period ended 30 June 2013 is the same as basic loss per share because the share options outstanding had an anti-dilutive effect in the calculation of diluted loss per share.

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share.

From discontinued operation

	(Unaudited) For the six months ended 30 June 2013
Basic	HK(1.66) cents
	<hr/> <hr/>
Diluted	HK(1.66) cents
	<hr/> <hr/>

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the net loss for the six months ended 30 June 2013 of approximately HK\$4,463,000 and the denominators detailed above.

Diluted loss per share for the six months ended 30 June 2013 is the same as basic loss per share because the share options outstanding had an anti-dilutive effect in the calculation of diluted loss per share.

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 at the end of the reporting period:

	(Unaudited) 30 June 2014 HK\$'000	(Audited) 31 December 2013 HK\$'000
0-60 days	24,848	20,279
61-90 days	341	1,453
91-120 days	–	53
Over 120 days	13	1,061
	<hr/>	<hr/>
	25,202	22,846
	<hr/> <hr/>	<hr/> <hr/>

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 2014 HK\$'000	(Audited) 31 December 2013 HK\$'000
0-60 days	3,329	3,759
61-90 days	342	15
91-120 days	–	–
Over 120 days	18	214
	<hr/>	<hr/>
	3,689	3,988
	<hr/> <hr/>	<hr/> <hr/>

11. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables at the end of the period:

	(Unaudited) 30 June 2014 <i>HK\$'000</i>	(Audited) 31 December 2013 <i>HK\$'000</i>
0-60 days	15,144	7,593
61-90 days	3,406	6,209
91-120 days	987	2,675
Over 120 days	1,266	1,172
	<hr/> 20,803 <hr/>	<hr/> 17,649 <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK1.0 cent per share (2013: HK1.0 cent per share) for the six months ended 30 June 2014 payable on 7 October 2014, Tuesday, to shareholders whose names appear on the register of members of the Company (the "Register of Members") on 19 September 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 18 September 2014 to 19 September 2014, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed interim dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 17 September 2014.

BUSINESS REVIEW

During the period under review, the total revenue of the Group stood at approximately HK\$89,533,000 (2013: HK\$83,030,000), representing an increase of about 8%, and recorded a profit for the period attributable to owners of the Company of approximately HK\$1,100,000 (2013: loss of HK\$9,902,000).

For the first half of 2014, the contribution from the core business of the Group recorded a gain of approximately HK\$1,060,000 (2013: HK\$1,406,000). Detailed performance of each segment of the core business will be discussed below. Included in the profit for the period was the profit from investments of approximately HK\$2,613,000 (2013: loss of HK\$5,681,000), details of the profit from investments will be further analysed below.

Distribution costs decrease by about 18% to approximately HK\$2,190,000 (2013: HK\$2,677,000) while administrative expenses increase by about 14% to approximately HK\$ 19,352,000 (2013: HK\$16,922,000) as a result of, among others, certain overheads formerly allocated to the packaging segment, which was discontinued in 2013, being now absorbed by the Group.

Novelties and decorations

The revenue of the novelties and decorations products segment stood steadily at approximately HK\$11,649,000 (2013: HK\$11,659,000), however, the loss therefrom increased further to approximately HK\$8,131,000 (2013: HK\$6,371,000). Revenue stood at a record low level, which had led to the further deterioration of results during the period under review.

Toy products

The revenue of the segment increased gently by about 9% amounting to approximately HK\$77,884,000 (2013: HK\$71,371,000), and recorded a profit of HK\$9,191,000 (2013: HK\$7,777,000), representing an improvement of about 18%. The segment continued to be the best performing one within the Group and sustained stable business and profit margin.

Investments

To better utilize the available cash on hand, the Group has invested in the securities listed in Hong Kong and their related derivative products, including but not limited to equity linked deposits, and also other tradable securities. During the period under review, profit of investments derived from the aforesaid transactions amounted to approximately HK\$2,613,000 (2013: loss of HK\$5,681,000). Such profit was the combined effect of, among other things, the realized gain on disposal of investments held-for-trading of approximately HK\$776,000 (2013: loss of HK\$1,526,000), the increase in fair value of investments held-for trading of approximately of HK\$585,000 (2013: decrease of HK\$7,025,000) and the decrease in fair value of derivative financial instruments of approximately HK\$64,000 (2013: increase of HK\$1,894,000).

Investments held-for-trading are usually held for short-term purposes for capital gain in the value of the assets held. As at 30 June 2014, the market value of investment in securities was approximately HK\$45,493,000 (31 December 2013: HK\$46,675,000).

As at 30 June 2014, the Group carried outstanding forward contracts with a commitment for the sale and purchase of equity shares of notional amount of approximately HK\$43,034,000 and HK\$28,174,000 respectively (31 December 2013: HK\$32,990,000 and HK\$22,840,000).

FUTURE PLAN AND PROSPECT

As global stock markets are still volatile, the Group's funds for investment will be diversified into (i) equity securities and related derivative products; (ii) debt securities; and (iii) investment properties. In August 2014, the Group acquired further properties for investment purposes, details of which are stated in the announcement of the Company dated 6 August 2014.

In view of the expected improvements of the performance of the core business of the Company in the second half of the year, the Directors are prudently confident that the results of the Group will be improved in the second half of the year and its dividend policy will therefore continue subject to the cash position of the Group.

Liquidity and financial resources

As at 30 June 2014, the Group had no long-term bank borrowings (31 December 2013: nil), while the short-term bank borrowings amounted to approximately HK\$15,711,000, (31 December 2013: HK\$21,918,000), and none of the Group's plant and machinery (31 December 2013: nil) was held under a finance lease. The gearing ratio of the Group, measured by total bank and other borrowings divided by equity attributable to owners of the Company was approximately 9% (31 December 2013: 11%).

Finance costs

The Group's finance costs amounted to approximately HK\$184,000 (2013: HK\$90,000).

Pledge of Assets

As at 30 June 2014, the following assets were pledged to secure the margin loan facilities granted to the Group:

- (i) Investments held-for-trading with a carrying value of approximately HK\$45,493,000 (31 December 2013: HK\$31,559,000); and
- (ii) Bank deposits of approximately HK\$10,224,000 (31 December 2013: HK\$5,271,000).

At 30 June 2014, the Group has utilised margin loan facilities from financial institutions with an amount of approximately HK\$Nil (31 December 2013: HK\$Nil). The margin loan facilities were charged at variable market rates.

In addition to the margin loan facilities, the Group had also pledged the following assets to secure a mortgage loan:

- (i) Leasehold land and building with a carrying value of approximately HK\$30,710,000 (31 December 2013: HK\$31,660,000); and
- (ii) Bank deposits of approximately HK\$477,000 (31 December 2013: HK\$1,475,000).

Net asset value

The net asset value of the Group as at 30 June 2014 was approximately HK\$0.60 (31 December 2013: HK\$0.69) per share based on the actual number of 293,115,607 (31 December 2013: 290,115,607) shares in issue on that date.

Employees and remuneration policies

As at 30 June 2014, the Group employed approximately 1,600 (2013: 1,800) 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.

As at 30 June 2014, the Group did not enter into any financial instrument for the hedging of exposure in foreign currencies.

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

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

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance

Throughout the six months ended 30 June 2014, the Company has adopted the code provisions (the "Code Provisions") set out in the "Corporate Governance Code and Corporate Governance Report" (the "Code") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its corporate governance code and has complied with the Code Provisions, save for the following deviations.

Code Provision A.2.1

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

While the Company does not have the position of chief executive officer, the responsibilities normally assumed by such a role are taken by the managing director of the Company. Mr. Poon Siu Chung is the chairman of the Board (the “Chairman”) and the managing director of the Company (the “Managing Director”). The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Poon and believes that having Mr. Poon performing the roles of Chairman and Managing Director is beneficial to the business prospects of the Company.

Code Provision A.6.7

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Due to other pre-arranged business commitments which must be attended to by him, Mr. Yip Chi Hung, being the independent non-executive director of the Company, was not present at the annual general meeting of the Company held on 20 May 2014. However, Mr. Lam Yat Cheong and Mr. Choy Wing Keung, David, both of whom being independent non-executive directors of the Company, were present at the annual general meeting to ensure an effective communication with the shareholders thereat.

Code Provision D.1.4

Code Provision D.1.4 stipulates that all directors should clearly understand delegation arrangements in place. The Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Company has no formal letters of appointment for the independent non-executive directors, namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, as all of them have been serving as directors for a considerable period of time, a clear understanding of the terms and conditions of their appointment already exists between the Company and the directors, and so there is no written record of the same. In any event, all directors, including those without a letter of appointment and those appointed for a specific term, 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.

Code Provision F.1.1

Code Provision F.1.1 stipulates that the company secretary of the Company should be an employee of the Company and have day-to-day knowledge of the Company's affairs.

The company secretary of the Company, Ms. Pang Siu Yin, is a partner of the Company's legal adviser, Cheung Tong & Rosa Solicitors. Ms. Pang has been appointed as the company secretary of the Company since 1 April 1998. The Company has also assigned Mr. Poon Wai Yip, Albert, an executive director of the Company, and Mr. Yuen Che Wai, Victor, the financial controller of the Company, as the contact persons with Ms. Pang. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. Pang through the contact persons assigned. Given the long-term relationship between Ms. Pang and the Group, she is very familiar with the operations of the Group and has an in depth knowledge of the management of the Group. Having in place a mechanism that she will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. Pang as the company secretary is beneficial to the Group's compliance of the relevant board procedures, applicable laws, rules and regulations.

Model Code for Securities Transactions by Directors

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

Following specific enquiry by the Group, all Directors have confirmed that throughout the six months ended 30 June 2014 they complied with the required standard set out in the Model Code for securities transactions.

Audit Committee

The Company has established an audit committee which comprises all independent non-executive Directors ("INEDs"), Mr. Choy Wing Keung, David, Mr. Yip Chi Hung and Mr. Lam Yat Cheong, who is also the chairman of the audit committee.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 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. Choy Wing Keung, David, Mr. Lam Yat Cheong, Mr. Yip Chi Hung, who is also the chairman of the committee, Mr. Poon Siu Chung, as an executive Director, and Mr. Yuen Che Wai, Victor, the Financial Controller of the Company.

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 the Board with new directors.

The committee comprises Mr. Lam Yat Cheong, Mr. Yip Chi Hung, Mr. Choy Wing Keung, David, who is also the chairman of the committee, and Mr. Poon Wai Yip, Albert, as an executive Director.

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

DIRECTORS OF THE COMPANY

As at the date of this announcement, Mr. Poon Siu Chung, Mr. Tsui Yan Lee, Benjamin, Dr. Poon Wai Tsun, William and Mr. Poon Wai Yip, Albert are the executive Directors of the Company, Mr. Yip Chi Hung, Mr. Lam Yat Cheong and Mr. Choy Wing Keung, David are the independent non-executive Directors of the Company.

On behalf of the Board
Poon Siu Chung
Chairman & Managing Director

Hong Kong, 27 August 2014