



Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability
Stock Code:765

INTERIM REPORT 2016





CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Poon Siu Chung
(*Chairman and Managing Director*)
Dr. Poon Wai Tsun, William
Mr. Poon Wai Yip, Albert

Independent Non-executive Directors:

Mr. Lam Yat Cheong
Mr. Yip Chi Hung
Mr. Choy Wing Keung, David

COMPANY SECRETARY

Ms. Pang Siu Yin
(*resigned with effect from 25 August 2016*)
Ms. Cho Yi Ping
(*appointed with effect from 25 August 2016*)

AUDITOR

HLM CPA Limited
Certified Public Accountants
Hong Kong

LEGAL ADVISER

Cheung Tong & Rosa Solicitors

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units C & D, 9/F, Sing Teck Factory Building
44 Wong Chuk Hang Road
Aberdeen
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.perfectech.com.hk

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

| | | (Unaudited) | |
|---|-------|-------------------------------------|------------------|
| | | For the six months ended 30 June | |
| | Notes | 2016 HK\$'000 | 2015 HK\$'000 |
| Revenue | 2 & 3 | 87,355 | 75,311 |
| Cost of sales | | (66,837) | (64,940) |
| Gross profit | | 20,518 | 10,371 |
| Other income, gains and losses | 4 | 3,121 | 7,879 |
| Distribution costs | | (1,906) | (1,912) |
| Administrative expenses | | (17,719) | (29,239) |
| Finance costs | | (289) | (326) |
| Profit (loss) before tax | 5 | 3,725 | (13,227) |
| Income tax expenses | 6 | (315) | (219) |
| Profit (loss) for the period | | 3,410 | (13,446) |
| Other comprehensive (expenses) income, net of income tax | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences on translation of overseas operations | | (526) | 118 |
| Total comprehensive income (expenses) for the period | | 2,884 | (13,328) |



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2016

| | | (Unaudited) | |
|--|--------------|---------------------------|--------------|
| | | For the six months | |
| | | ended 30 June | |
| | | 2016 | 2015 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | 1,565 | (13,440) |
| Non-controlling interests | | 1,845 | (6) |
| | | <hr/> | <hr/> |
| Profit (loss) for the period | | 3,410 | (13,446) |
| | | <hr/> | <hr/> |
| Total comprehensive income (expenses) for the period attributable to: | | | |
| Owners of the Company | | 1,100 | (13,329) |
| Non-controlling interests | | 1,784 | 1 |
| | | <hr/> | <hr/> |
| Total comprehensive income (expenses) for the period | | 2,884 | (13,328) |
| | | <hr/> | <hr/> |
| Earnings (loss) per share | 8 | | |
| Basic | | 0.48 cent | (4.48) cents |
| | | <hr/> | <hr/> |
| Diluted | | 0.48 cent | (4.48) cents |
| | | <hr/> | <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

| | | (Unaudited) 30 June 2016 HK\$'000 | (Audited) 31 December 2015 HK\$'000 |
|--|-------|--|--|
| | Notes | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 59,242 | 62,418 |
| Investment property | | 31,400 | 31,400 |
| Deferred tax assets | | 8,172 | 7,137 |
| | | 98,814 | 100,955 |
| CURRENT ASSETS | | | |
| Inventories | | 22,426 | 17,145 |
| Trade and other receivables | 10 | 32,290 | 23,974 |
| Tax recoverable | | 2,797 | 3,443 |
| Held for trading investments | 12 | 55,330 | 38,937 |
| Derivative financial instruments | 11 | 40 | 244 |
| Financial assets designated as at fair value through profit or loss | | – | 938 |
| Pledged bank deposits | | 1,116 | 1,119 |
| Bank balances and cash | | 56,074 | 66,286 |
| | | 170,073 | 152,086 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 33,792 | 21,511 |
| Derivative financial instruments | 11 | 664 | 2,646 |
| Tax liabilities | | 3,068 | 3,885 |
| Bank borrowings – due within one year | 14 | 24,606 | 26,106 |
| | | 62,130 | 54,148 |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL
POSITION (CONTINUED)
AS AT 30 JUNE 2016

| | | (Unaudited) | (Audited) |
|--|--------------|--------------------|-------------|
| | | 30 June | 31 December |
| | | 2016 | 2015 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| NET CURRENT ASSETS | | 107,943 | 97,938 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 206,757 | 198,893 |
| NON CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | 1 | 198 |
| NET ASSETS | | 206,756 | 198,695 |
| CAPITAL AND RESERVES | | | |
| Share capital | 15 | 32,692 | 31,834 |
| Reserves | | 157,925 | 151,153 |
| Equity attributable to owners of the Company | | 190,617 | 182,987 |
| Non-controlling interests | | 16,139 | 15,708 |
| TOTAL EQUITY | | 206,756 | 198,695 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(Unaudited)

| | Share capital | Share premium | Capital redemption reserve | Share option reserve | Translation reserve | Retained profits | Equity attributable to owners of the Company | Non-controlling interests | Total |
|---|---------------|---------------|----------------------------|----------------------|---------------------|------------------|--|---------------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2016 | 31,834 | 111,222 | 10,337 | 9,620 | 249 | 19,725 | 182,987 | 15,708 | 198,695 |
| Profit for the period | - | - | - | - | - | 1,565 | 1,565 | 1,845 | 3,410 |
| Other comprehensive expenses for the period | | | | | | | | | |
| Exchange difference on translation of overseas operations | - | - | - | - | (465) | - | (465) | (61) | (526) |
| Total comprehensive (expenses) income for the period | - | - | - | - | (465) | 1,565 | 1,100 | 1,784 | 2,884 |
| Dividends | - | - | - | - | - | - | - | (1,353) | (1,353) |
| Shares issued upon exercise of options | 858 | 7,674 | - | (2,002) | - | - | 6,530 | - | 6,530 |
| At 30 June 2015 | 32,692 | 118,896 | 10,337 | 7,618 | (216) | 21,290 | 190,617 | 16,139 | 206,756 |
| At 1 January 2015 | 29,867 | 92,955 | 10,337 | 3,489 | 1,264 | 44,389 | 182,301 | 14,597 | 196,898 |
| Loss for the period | - | - | - | - | - | (13,440) | (13,440) | (6) | (13,446) |
| Other comprehensive income for the period | | | | | | | | | |
| Exchange difference on translation of overseas operations | - | - | - | - | 111 | - | 111 | 7 | 118 |
| Total comprehensive income (expenses) for the period | - | - | - | - | 111 | (13,440) | (13,329) | 1 | (13,328) |
| Dividends | - | - | - | - | - | (5,989) | (5,989) | (1,332) | (7,321) |
| Shares issued upon exercise of options | 1,670 | 15,567 | - | (3,471) | - | - | 13,766 | - | 13,766 |
| Share option granted | - | - | - | 10,909 | - | - | 10,909 | - | 10,909 |
| Share option lapsed | - | - | - | (599) | - | 599 | - | - | - |
| At 30 June 2015 | 31,537 | 108,522 | 10,337 | 10,328 | 1,375 | 25,559 | 187,658 | 13,266 | 200,924 |



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

| | (Unaudited) | |
|--|---|----------|
| | For the six months ended 30 June | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 5,073 | (12,379) |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | (18,147) | 4,735 |
| NET CASH FROM FINANCING ACTIVITIES | 3,388 | 3,453 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (9,686) | (4,191) |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | |
| Bank balances and cash | 66,286 | 49,060 |
| Effect of change in foreign exchange rates | (526) | 118 |
| CASH AND CASH EQUIVALENTS AT 30 JUNE | 56,074 | 44,987 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | 56,074 | 44,987 |



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 2015 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 2016 as follows:

| | |
|--|--|
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the consolidation Exception |
| Amendments to HKFRS 11 | Accounting for Acquisition of Interest in Joint Operations |
| Amendments to HKFRSs | Annual Improvements 2012-2014 cycle |

The adoption of these new developments 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. BASIS OF PREPARATION AND SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

| | |
|----------|--|
| HKFRS 9 | Financial Instruments ¹ |
| HKFRS 15 | Revenue from Contracts with Customers ¹ |

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

2. BUSINESS SEGMENTS

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

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

For the six months ended 30 June 2016 (Unaudited)

| | Novelties and decorations products | Toy products | Eliminations | Consolidated |
|--------------------------------|---|---------------------|---------------------|---------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| REVENUE | | | | |
| External sales | 7,542 | 79,813 | - | 87,355 |
| Inter-segment sales | - | - | - | - |
| Total revenue | 7,542 | 79,813 | - | 87,355 |
| RESULT | | | | |
| Segment results | (4,735) | 10,975 | - | 6,240 |
| Profit from investments | | | | 876 |
| Unallocated corporate expenses | | | | (3,102) |
| Finance costs | | | | (289) |
| Profit before tax | | | | 3,725 |
| Income tax expenses | | | | (315) |
| Profit for the period | | | | 3,410 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. BUSINESS SEGMENTS (CONTINUED)

As at 30 June 2016 (Unaudited)

| | Novelties and decorations products | Toy products | Consolidated |
|-----------------------------------|---|---------------------|---------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| ASSETS | | | |
| Segment assets | 26,311 | 100,867 | 127,178 |
| Unallocated corporate assets | | | 141,709 |
| Consolidated total assets | | | 268,887 |
| LIABILITIES | | | |
| Segment liabilities | 16,752 | 26,087 | 42,839 |
| Unallocated corporate liabilities | | | 19,292 |
| Consolidated total liabilities | | | 62,131 |

OTHER INFORMATION

For the six months ended 30 June 2016 (Unaudited)

| | Novelties and decorations products | Toy products | Others | Consolidated |
|-------------------------------|---|---------------------|-----------------|---------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Capital additions | 407 | 359 | – | 766 |
| Depreciation and amortisation | 533 | 2,575 | 832 | 3,940 |
| Interest income | 10 | 9 | 18 | 37 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. BUSINESS SEGMENTS (CONTINUED)

For the six months ended 30 June 2015 (Unaudited)

| | Novelties and decorations products HK\$'000 | Toy products HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|--------------------------------|---|--------------------------|--------------------------|--------------------------|
| REVENUE | | | | |
| External sales | 11,082 | 64,229 | – | 75,311 |
| Inter-segment sales | – | – | – | – |
| Total revenue | <u>11,082</u> | <u>64,229</u> | <u>–</u> | <u>75,311</u> |
| RESULT | | | | |
| Segment results | <u>(2,397)</u> | <u>(1,147)</u> | <u>–</u> | <u>(3,544)</u> |
| Profit from investments | | | | 4,299 |
| Unallocated corporate expenses | | | | (13,656) |
| Finance costs | | | | <u>(326)</u> |
| Loss before tax | | | | (13,227) |
| Income tax expenses | | | | <u>(219)</u> |
| Loss for the period | | | | <u>(13,446)</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. BUSINESS SEGMENTS (CONTINUED)

As at 31 December 2015 (Audited)

| | Novelties and decorations products HK\$'000 | Toy products HK\$'000 | Consolidated HK\$'000 |
|-----------------------------------|---|--------------------------|--------------------------|
| ASSETS | | | |
| Segment assets | 30,549 | 92,646 | 123,195 |
| Unallocated corporate assets | | | 129,846 |
| Consolidated total assets | | | 253,041 |
| LIABILITIES | | | |
| Segment liabilities | 12,549 | 20,353 | 32,902 |
| Unallocated corporate liabilities | | | 21,444 |
| Consolidated total liabilities | | | 54,346 |

OTHER INFORMATION

For the six months ended 30 June 2015 (Unaudited)

| | Novelties and decorations products HK\$'000 | Toy products HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|-------------------------------|---|--------------------------|--------------------|--------------------------|
| Capital additions | 63 | 236 | 1,258 | 1,557 |
| Depreciation and amortisation | 676 | 2,401 | 791 | 3,868 |
| Interest income | 14 | 7 | 19 | 40 |

Information about major customer

Included in revenues arising from sales of toys products of approximately HK\$79,813,000 (2015: HK\$64,229,000) are revenues of approximately HK\$75,845,000 (2015: HK\$60,106,000) which arose from sales to the Group's largest customer.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| <hr/> | | |
| Sales revenue by geographical market: | | |
| Hong Kong | 2,314 | 5,143 |
| Europe | 20,802 | 13,797 |
| America | 26,446 | 20,782 |
| Asia (other than Hong Kong) | 35,841 | 35,524 |
| Others | 1,952 | 65 |
| | <hr/> 87,355 <hr/> | <hr/> 75,311 <hr/> |

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 |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| <hr/> | | |
| Hong Kong | 197,689 | 176,073 |
| The People's Republic of China (the "PRC") | 71,198 | 76,968 |
| | <hr/> 268,887 <hr/> | <hr/> 253,041 <hr/> |

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 | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| <hr/> | | |
| Hong Kong | 36 | 1,258 |
| The PRC | 730 | 299 |
| | <hr/> 766 <hr/> | <hr/> 1,557 <hr/> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OTHER INCOME, GAINS AND LOSSES

| | (Unaudited) | |
|--|----------------------------------|----------|
| | For the six months ended 30 June | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Bad debts recovered | 1 | 277 |
| Bond interest income | – | 8 |
| Dividend income from held for trading investments | 1,366 | 1,016 |
| Gain on disposal of property, plant and equipment | 160 | 2,655 |
| Gain (loss) on disposal of held for trading investments | 365 | (519) |
| (Loss) gain from changes in fair value of held for trading investments | (2,634) | 1,552 |
| Gain from changes in fair value of derivative financial instruments | 1,778 | 2,239 |
| Interest income | 37 | 40 |
| Net exchange gains (losses) | 400 | (721) |
| Rental income | 306 | 30 |
| Scrap sales | 694 | 790 |
| Others | 648 | 512 |
| | 3,121 | 7,879 |

5. PROFIT (LOSS) BEFORE TAX

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

| | (Unaudited) | |
|---|----------------------------------|----------|
| | For the six months ended 30 June | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Depreciation of property, plant and equipment | 3,940 | 3,868 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. INCOME TAX EXPENSES

| | (Unaudited) | |
|--|---------------------------|----------|
| | For the six months | |
| | ended 30 June | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Tax charge comprises: | | |
| Current tax: | | |
| Hong Kong Profits Tax | (1,412) | (105) |
| PRC Enterprise Income tax | (53) | – |
| | (1,465) | (105) |
| (Under) over provision in prior years: | | |
| Hong Kong Profits Tax | – | 10 |
| PRC Enterprise Income tax | (82) | (108) |
| | (82) | (98) |
| Deferred tax credit (charge): | | |
| Current year | 1,232 | (16) |
| Total income tax expenses recognised in profit or loss | (315) | (219) |

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. DIVIDENDS

| | (Unaudited) For the six months ended 30 June | |
|--|--|----------|
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Final paid: | | |
| Nil (2015: HK2.0 cents per share for 2014) | — | 5,989 |

The Directors have resolved to declare an interim dividend of HK1.0 cent (2015: HK1.0 cent) per share.

8. EARNINGS (LOSS) PER SHARE

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\$1,565,000 (2015: loss of HK\$13,440,000) and the following data:

| | (Unaudited) For the six months ended 30 June | |
|---|--|-------------|
| | 2016 | 2015 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 324,793,025 | 299,896,270 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | 476,573 | 3,376,840 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 325,269,598 | 303,273,110 |

Diluted loss per share for the period ended 30 June 2015 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$766,000 (2015: HK\$1,557,000).

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

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

| | (Unaudited) | (Audited) |
|---------------|--------------------|-------------|
| | 30 June | 31 December |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| 0-60 days | 24,112 | 13,891 |
| 61-90 days | 22 | 61 |
| 91-120 days | 8 | – |
| Over 120 days | 1 | 28 |
| | 24,143 | 13,980 |

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) | (Audited) |
|---------------|--------------------|-------------|
| | 30 June | 31 December |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| 0-60 days | 7,200 | 2,183 |
| 61-90 days | – | – |
| 91-120 days | – | 28 |
| Over 120 days | 1 | – |
| | 7,201 | 2,211 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. DERIVATIVE FINANCIAL INSTRUMENTS

| | (Unaudited) 30 June 2016 HK\$'000 | (Audited) 31 December 2015 HK\$'000 |
|-----------------------|--|--|
| Financial assets | | |
| Equity accumulators | 40 | 85 |
| Equity decumulators | - | 159 |
| | 40 | 244 |
| Financial liabilities | | |
| Equity accumulators | (149) | (2,646) |
| Equity decumulators | (515) | - |
| | (664) | (2,646) |

As at 30 June 2016, the major terms of the listed equity decumulators contracts held by the Group were as follows:

| Nominal Amount | Underlying Securities | Maturity | Forward Prices |
|---------------------------|--|------------------|---------------------------|
| HK\$5,661,166 | CNOOC Limited | 6 February 2017 | HK\$9.47 |
| HK\$5,638,795 | CNOOC Limited | 27 February 2017 | HK\$9.72 |
| HK\$5,472,641 | Hong Kong Exchanges and Clearing Limited | 3 March 2017 | HK\$200.61 |
| HK\$7,570,530 | China Petroleum & Chemical Corporation | 30 June 2017 | HK\$6.39 |

As at 30 June 2016, the major terms of the listed equity accumulators contracts held by the Group were as follows:

| Nominal Amount | Underlying Securities | Maturity | Forward Prices |
|---------------------------|--|-----------------|---------------------------|
| HK\$4,745,827 | China Life Insurance Company Limited | 7 July 2016 | HK\$25.86 |
| HK\$6,126,537 | Hong Kong Exchanges and Clearing Limited | 21 July 2016 | HK\$190.80 |
| HK\$4,651,425 | Hong Kong Exchanges and Clearing Limited | 17 August 2016 | HK\$168.14 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. HELD FOR TRADING INVESTMENTS

| | (Unaudited) 30 June 2016 HK\$'000 | (Audited) 31 December 2015 HK\$'000 |
|---------------------------------------|--|--|
| Equity securities listed in Hong Kong | 52,210 | 38,937 |
| Unlisted bond | 3,120 | – |
| | 55,330 | 38,937 |

The movements of held for trading investments during the period:

| | (Unaudited) 30 June 2016 HK\$'000 | (Unaudited) 30 June 2015 HK\$'000 |
|--|--|--|
| Balance at the beginning of the period | 38,937 | 46,993 |
| Additions | 25,152 | 16,032 |
| Disposals | (6,125) | (21,807) |
| (Loss) gain from changes in fair value of held for trading investments | (2,634) | 1,552 |
| Balance at the end of the period | 55,330 | 42,770 |

The fair values of the held for trading investments are determined based on the market closing prices available on the relevant exchanges at 30 June 2016.

13. 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 2016 HK\$'000 | (Audited) 31 December 2015 HK\$'000 |
|---------------|--|--|
| 0-60 days | 11,038 | 6,723 |
| 61-90 days | 2,645 | 1,064 |
| 91-120 days | 54 | 94 |
| Over 120 days | 950 | 588 |
| | 14,687 | 8,469 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. BANK BORROWINGS

| | (Unaudited) 30 June 2016 HK\$'000 | (Audited) 31 December 2015 HK\$'000 |
|------------------------|--|--|
| Secured mortgage loans | 24,606 | 26,106 |

The secured mortgage loans were secured by a mortgage over the Group's land and buildings and investment properties.

The amounts bear interest at prevailing market rates and are repayable as follows:

| | (Unaudited) 30 June 2016 HK\$'000 | (Audited) 31 December 2015 HK\$'000 |
|--|--|--|
| On demand or within one year | 12,556 | 12,519 |
| More than one year, but not exceeding two years (Note) | 3,128 | 6,257 |
| More than two years, but not exceeding five years (Note) | 8,238 | 7,330 |
| More than five years (Note) | 684 | – |
| | 24,606 | 26,106 |

Note: These bank loans that are not repayable within one year from the end of the reporting period but as these loans include a clause that gives the lender the unconditional right to call the loans at any time, and according to HK Int 5 which requires the classification of the whole term loans containing the repayment on demand clause as current liabilities, all the term loans were classified by the Group as current liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. SHARE CAPITAL

| | (Unaudited) | | | |
|--|----------------------------------|----------|-----------------------|----------|
| | Authorised | | Issued and fully paid | |
| | For the six months ended 30 June | | | |
| | 2016 | 2015 | 2016 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Ordinary shares of HK\$0.1 each | | | | |
| At beginning of the period | 70,000 | 70,000 | 31,834 | 29,867 |
| Issue of shares on exercise of options | – | – | 858 | 1,670 |
| At end of the period | 70,000 | 70,000 | 32,692 | 31,537 |

16. COMMITMENTS

- (a) Capital commitments for property, plant and equipment

| | (Unaudited) | (Audited) |
|-----------------------------------|-----------------------------|---------------------------------|
| | 30 June 2016 HK\$'000 | 31 December 2015 HK\$'000 |
| Contracted but not provided for | 613 | 477 |
| Authorised but not contracted for | – | – |
| | 613 | 477 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. COMMITMENTS (CONTINUED)

(b) Operating lease commitments

The Group as lessee

At the end of the period, the Group had commitments for future minimum lease payments under non-cancelable operating leases in respect of rented premises which fall due as follows:

| | (Unaudited) | (Audited) |
|--|--------------------|-------------|
| | 30 June | 31 December |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Within one year | 5,268 | 4,387 |
| In the second to fifth years inclusive | 11,552 | 6,211 |
| Over five years | 25,607 | – |
| | 42,427 | 10,598 |

Operating lease payments represent rental payable by the Group for certain of its office and factory properties. Leases are negotiated for a term from 1 to 29 years.

The Group as lessor

| | (Unaudited) | (Audited) |
|--|--------------------|-------------|
| | 30 June | 31 December |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Within one year | 591 | 577 |
| In the second to fifth years inclusive | 82 | 279 |
| | 673 | 856 |

17. OTHER COMMITMENTS

As at 30 June 2016, the Group carried outstanding forward contracts which entitled a commitment for the sale and purchase of equity shares of notional amount of approximately HK\$19,308,000 and HK\$1,695,000 respectively (31 December 2015: HK\$17,433,000 and HK\$19,625,000) as disclosed in note 11.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. CONTINGENT LIABILITIES

(a) Contingent liability in respect of legal claim

A subsidiary of the Group (the "Subsidiary") has served a writ and claimed against three former employees of the Subsidiary (the "Defendants"). The claim related to the misconduct of the Defendants during their employment with the Subsidiary. The Defendants have filed a defence and counterclaim against the Subsidiary for wages and other payments allegedly payable upon their termination of employment with the Subsidiary amounting to approximately HK\$419,000 together with interests and costs. The Directors take the views that the amount of their claims against the Defendants will exceed the Defendants' counterclaims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

(b) Financial guarantees issued

As at the end of the reporting period, the Company had issued the following guarantees:

A corporate guarantee to banks in respect of banking facilities granted to its subsidiaries.

The Company is also one of the entities covered by a cross guarantee arrangement issued by the Company and its subsidiaries to banks in respect of banking facilities granted to the Group which remains in force so long as the Group has drawn down under the banking facilities. Under the guarantee, the Company and all the subsidiaries that are a party to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

As at 30 June 2016, the Directors did not consider it probable that a claim will be made against the Company under any of the guarantees as the probability of default payment for the loans drawn down by the subsidiaries is remote.

The Company has not recognised any deferred income in respect of the corporate guarantee as its fair value cannot be reliably measured and its transaction price was nil.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. RELATED PARTY TRANSACTIONS

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

| | (Unaudited) | |
|--------------------------|---|----------|
| | For the six months ended 30 June | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Rental expenses paid to: | | |
| Mr. Poon Siu Chung | 60 | 60 |

The above transactions were determined by the directors by reference to the relevant estimated market values.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified or restated to conform to the current year's presentation.

SHARE OPTION SCHEME

A share option scheme (the “Old Scheme”) was adopted in the annual general meeting of the Company held on 17 May 2002 and was expired on 16 May 2012. In view of the expiration of the Old Scheme, a new share option scheme (the “New Scheme”) was adopted in the annual general meeting of the Company held on 30 May 2012 and will expire on 29 May 2022. The primary purpose of both the Old Scheme and the New Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide them with incentives and to help the Company in retaining its existing employees and recruiting additional employees and to provide the aforesaid eligible participants with a direct economic interest and personal stake in attaining the long term business objectives of the Company.

Under the Old Scheme, the board of Directors may grant options to any employees, including full time or part time employees, of the Company and/or its subsidiaries including any executive and non-executive directors or proposed executive and non-executive directors of the Company or its subsidiary, adviser, consultant, agent, contractor, client and supplier of any members of the Group who has contributed to the Group, while under the New Scheme, the board of Directors may grant options to any employees, including full time or part time employees, of the Company and/or its subsidiaries including any executive and non-executive directors or proposed executive and non-executive directors of the Company or its subsidiary, adviser, consultant, customer and supplier and/or other person who in the sole discretion of the board of Directors has contributed or may contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the schemes for the consideration of HK\$1 for each lot of share options granted.

The maximum number of shares in respect of which options may be granted under both the Old Scheme and the New Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of adoption of the Old Scheme and the New Scheme respectively. In addition, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under both the Old Scheme and the New Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of shares of the Company for the time being in issue without prior approval from the Company’s shareholders in general meeting with the aforesaid proposed individual grantee and his associates being abstained from voting in such general meeting.



SHARE OPTION SCHEME (CONTINUED)

No options are open for acceptance under the Old Scheme since its expiry on 16 May 2012 and in relation to the New Scheme, options granted must remain open for acceptance until 5:00 p.m. on the 5th business day following the offer date provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date or after the New Scheme has been terminated. Options may be exercised during the period as the Directors may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of the grant of the options and the board of Directors may provide restrictions on the exercise of an option during the period an option may be exercised.

Total consideration received during the period from the Directors, employees and/or other persons for taking up the options granted during the period is HK\$nil (2015: HK\$13).

All options were vested on the date of grant upon acceptance.

The exercise price is determined by the board of Directors at the time of the grant of the relevant option and will be at least the higher of:

- (a) the closing price of shares at the date of grant;
- (b) the average closing price of the shares for the five business days immediately preceding the date of grant; and
- (c) the nominal value of a share.

At the date of this report, the number of shares available for issue under the Old Scheme and the New Scheme of the Company were 0 and 49,144,360 respectively, representing approximately 0% and 15.03% respectively of the shares of the Company in issue at that date.

SHARE OPTION SCHEME (CONTINUED)

Details of the movements in the Company's share options during the period are as follows:

| | Number of options outstanding at 1/1/2016 | Number of options granted during the period | Number of shares issued and exercise of options the during the period | Number of options lapsed during the period | Number of options cancelled during the period | Number of options outstanding at 30/6/2016 | Date granted | Exercise price per share HK\$ | Exercisable period |
|-----------------------------|---|---|---|--|---|--|--------------|-------------------------------|------------------------|
| Directors | | | | | | | | | |
| - Poon Siu Chung | 2,700,000 | - | (2,700,000) | - | - | - | 13-Apr-11 | 0.740 | 01-May-11 to 31-Dec-20 |
| | 2,986,000 | - | (2,900,000) | - | - | 86,000 | 01-Apr-15 | 0.770 | 02-Apr-15 to 01-Apr-25 |
| | 2,986,000 (Note) | - | (2,986,000) | - | - | - | 01-Apr-15 | 0.770 | 02-Apr-15 to 01-Apr-25 |
| - Poon Wai Tsun, William | 2,986,000 (Note) | - | - | - | - | 2,986,000 | 05-May-15 | 1.460 | 06-May-15 to 05-May-25 |
| - Poon Wai Yip, Albert | 2,986,000 (Note) | - | - | - | - | 2,986,000 | 05-May-15 | 1.460 | 06-May-15 to 05-May-25 |
| - Choy Wing Keung, David | 500,000 | - | - | - | - | 500,000 | 05-May-15 | 1.460 | 06-May-15 to 05-May-25 |
| | <u>15,144,000</u> | <u>-</u> | <u>(8,586,000)</u> | <u>-</u> | <u>-</u> | <u>6,558,000</u> | | | |

SHARE OPTION SCHEME (CONTINUED)

| | Number of options outstanding at 1/1/2016 | Number of options granted during the period | Number of shares issued and exercise of options the during the period | Number of options lapsed during the period | Number of options cancelled during the period | Number of options outstanding at 30/6/2016 | Date granted | Exercise price per share HK\$ | Exercisable period |
|-------------|---|---|---|--|---|--|--------------|-------------------------------|------------------------|
| Others | 9,894,000 | - | - | - | - | 9,894,000 | 05-May-15 | 1.460 | 06-May-15 to 05-May-25 |
| | <u>9,894,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>9,894,000</u> | | | |
| Grand Total | <u>25,038,000</u> | <u>-</u> | <u>(8,586,000)</u> | <u>-</u> | <u>-</u> | <u>16,452,000</u> | | | |

Note: These interests represent share options granted by the Company to the spouse of the respective director.

The closing price of the Company's shares on 13 April 2011, 1 April 2015 and 5 May 2015, the dates of grant of the options, were HK\$0.740, HK\$0.770 and HK\$1.460 respectively.

Share options were exercised on various dates during the period, the weighted average closing price of the Company's shares immediately before those dates was HK\$1.2743.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 30 June 2016, the interests of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

(A) Long Positions in the shares of the Company

| Directors | Capacity | No. of shares held | No. of underlying shares held under equity derivatives | Total | % of issued share capital of the Company |
|----------------------------|------------------------------------|--------------------|--|-----------------|--|
| Mr. Poon Siu Chung | Beneficial owner | 22,764,000 | 86,000 (b) | | |
| | Interest of spouse | 16,404,000 | - | | |
| | Interest of controlled corporation | 101,139,430 | - | 140,393,430 (a) | 42.94 |
| Dr. Poon Wai Tsun, William | Interest of spouse | - | 2,986,000 (b) | 2,986,000 | 0.91 |
| Mr. Poon Wai Yip, Albert | Interest of spouse | - | 2,986,000 (b) | 2,986,000 | 0.91 |
| Mr. Choy Wing Keung, David | Beneficial owner | - | 500,000 (b) | 500,000 | 0.15 |

Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 22,764,000 shares ("Shares") of the Company and he was deemed to be interested in 16,404,000 Shares and 101,139,430 Shares which were held by his spouse, Ms. Lau Kwai Ngor and through Mime Limited, a limited company incorporated in Hong Kong and was owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor respectively.
- (b) These interests represented interest in underlying shares of the Company in respect of share options granted by it to these directors and/or their spouses as beneficial owners, details of which are set out in the section "Share Option Scheme" of this report.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS (CONTINUED)

(B) Long Position in shares of associated corporations of Company

| Directors | Name of associated corporation | Capacity | No. of shares held | Total | % of issued share capital of associated corporation |
|--------------------|---------------------------------------|--------------------|--------------------|------------|---|
| Mr. Poon Siu Chung | Perfectech International Limited | Beneficial owner | 200 | | |
| | | Interest of spouse | 200 | 400 (c) | 50 |
| | Sunflower Garland Manufactory Limited | Beneficial owner | 60,800 | | |
| | | Interest of spouse | 20,800 | 81,600 (d) | 51 |

Notes:

- (c) Mr. Poon Siu Chung was the beneficial owner of 200 non-voting deferred shares ("Perfectech Shares") of HK\$100 each in Perfectech International Limited, a subsidiary of the Company, and was deemed to be interested in 200 Perfectech Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (d) Mr. Poon Siu Chung was the beneficial owner of 60,800 non-voting deferred shares ("Sunflower Shares") of HK\$1 each in Sunflower Garland Manufactory Limited, a subsidiary of the Company, and was deemed to be interested in 20,800 Sunflower Shares through interests of his spouse, Ms. Lau Kwai Ngor.

Details of the directors, or their associates, interests in the share options of the Company or any of its associated corporations are set out in the "Share Option Scheme" section of this report.

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the directors, nor their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2016 as defined in the SFO.



CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in Directors' biographical details since the date of the Annual Report 2015, which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, are the adjustment of salary packages of the executive Directors, namely, Mr. Poon Siu Chung, Dr. Poon Wai Tsun, William and Mr. Poon Wai Yip, Albert, as shown below. The said adjustments were effective from the dates specified below, with other terms of employment remained unchanged:

| Director | Annual salaries & allowances | Performance bonus | Effective date |
|----------------------------|---|--|-----------------------|
| Mr. Poon Siu Chung | HK\$2,400,000 | 3.00% on Group's consolidated net profit | 1 May 2016 |
| Dr. Poon Wai Tsun, William | HK\$1,020,000 | 1.25% on Group's consolidated net profit | 1 May 2016 |
| Mr. Poon Wai Yip, Albert | HK\$996,000 | 1.25% on Group's consolidated net profit | 1 May 2016 |

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

Other than the interests as disclosed above in the section "Directors' Interests in Shares and Options", as at 30 June 2016, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the share capital of the Company as follows:

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Long Positions in shares of the Company

| Shareholders | Capacity | No. of shares held | No. of underlying shares held under equity derivatives | Total | % of issued share capital of the Company |
|--|------------------------------------|--------------------|--|-----------------|--|
| Ms. Lau Kwai Ngor | Beneficial owner | 16,404,000 | – | | |
| | Interest of spouse | 22,764,000 | 86,000 | | |
| | Interest of controlled corporation | 101,139,430 | – | 140,393,430 (e) | 42.94 |
| Mime Limited | Beneficial owner | 101,139,430 | – | 101,139,430 (e) | 30.94 |
| Mr. Leung Ying Wai, Charles | Interest of controlled corporation | 61,365,200 | – | 61,365,200 (f) | 18.77 |
| Hong Kong China Development Holdings Limited | Interest of controlled corporation | 61,365,200 | – | 61,365,200 (f) | 18.77 |
| Nielsen Limited | Beneficial owner | 61,365,200 | – | 61,365,200 (f) | 18.77 |

Notes:

- (e) Under SFO, Ms. Lau Kwai Ngor was the beneficial owner of 16,404,000 Shares and was deemed to be interested in 22,764,000 Shares through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 22,764,000 Shares and he was deemed to be interested in 101,139,430 Shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor.
- (f) Nielsen Limited held 61,365,200 Shares and Mr. Leung Ying Wai, Charles was deemed to be interested in such Shares since he owned 100% interest in Hong Kong China Development Holdings Limited. Hong Kong China Development Holdings Limited in turn held 99% of the total number of issued shares of Nielsen Limited.



MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK1.0 cent per share (2015: HK1.0 cent per share) for the six months ended 30 June 2016 payable on Friday, 30 September 2016, to shareholders whose names appear on the register of members of the Company (the "Register of Members") on Tuesday, 20 September 2016.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 19 September 2016 to Tuesday, 20 September 2016, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 15 September 2016.

BUSINESS REVIEW

During the period under review, the total revenue of the Group stood at approximately HK\$87,355,000 (2015: HK\$75,311,000), representing an increase of about 16%, and recorded a profit for the period attributable to owners of the Company of approximately HK\$1,565,000 (2015: loss of HK\$13,440,000).

For the first half of 2016, the contribution from the core business of the Group recorded a gain of approximately HK\$6,240,000 (2015: loss of HK\$3,544,000). 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\$876,000 (2015: HK\$4,299,000), details of the profit from investments will be further analysed below.

Distribution costs stood steadily at approximately HK\$1,906,000 (2015: HK\$1,912,000) while administrative expenses decreased by about 39% to approximately HK\$17,719,000 (2015: HK\$29,239,000) as a result of, among others, no share-based payments incurred in the period under review (2015: HK\$10,909,000).



BUSINESS REVIEW (CONTINUED)

Novelties and decorations

The revenue of the novelties and decorations products segment decreased further by about 32% to approximately HK\$7,542,000 (2015: HK\$11,082,000), while the loss therefrom amounted to approximately HK\$4,735,000 (2015: HK\$2,397,000). Included in the loss was a gain on disposal of property, plant and equipment of approximately HK\$31,000 (2015: HK\$2,692,000).

Toy products

The revenue of the segment increased substantially by about 24% to approximately HK\$79,813,000 (2015: HK\$64,229,000), and recorded a gain of HK\$10,975,000 (2015: loss of HK\$1,147,000). The segment had improved significantly since the second half of 2015 and continued to contribute significantly and steadily to the Group.

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\$876,000 (2015: HK\$4,299,000). Such profit was the combined effect of, among other things, dividend income from held for trading investments of approximately HK\$1,366,000 (2015: HK\$1,016,000), the realized gain from disposal of held for trading investments of approximately HK\$365,000 (2015: loss of HK\$519,000), the loss from changes in fair value of held for trading investments of approximately HK\$2,634,000 (2015: gain of HK\$1,552,000) and the gain from changes in fair value of derivative financial instruments of approximately HK\$1,778,000 (2015: HK\$2,239,000).

Held for trading investments are usually held for short-term purposes for capital gain in the value of the assets held. As at 30 June 2016, the market value of held for trading investments was approximately HK\$55,330,000 (31 December 2015: HK\$38,937,000). More than 90% of which were constituents of either the Hong Kong Hang Seng Index or the Hang Seng Composite Industry Indexes.

As at 30 June 2016, the Group carried outstanding forward contracts with a commitment for the sale and purchase of equity shares of notional amount of approximately HK\$19,308,000 and HK\$1,695,000 respectively (31 December 2015: HK\$17,433,000 and HK\$19,625,000).

Investment transactions must be carried out in accordance with the Company's treasury policies on investment transactions, details of which are posted on the Company's website, www.perfectech.com.hk.



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 order to stabilise the ever-increasing costs of production in the PRC, the Group has started the consolidation of its production facilities since few years ago and will continue such action whenever it is appropriate to do so. Certain production facilities of the toys segment have been relocated and/or acquired in Yakou District, Zhongshan City, where the factory premises were built by the Group with long lease, to increase its capacities.

In view of the traditional peak season of the core business of the Company in the second half of the year, the Directors are optimistic that the results of the Group will be sustained in the second half of the year.

Liquidity and financial resources

As at 30 June 2016, the Group had no long-term bank borrowings (31 December 2015: nil), while the short-term bank borrowings amounted to approximately HK\$24,606,000, (31 December 2015: HK\$26,106,000), and none of the Group's plant and machinery (31 December 2015: 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 13% (31 December 2015: 14%).

Finance costs

The Group's finance costs amounted to approximately HK\$289,000 (2015: HK\$326,000).



FUTURE PLAN AND PROSPECT (CONTINUED)

Pledge of Assets

As at 30 June 2016, the following assets were pledged to secure the margin loan facilities granted to the Group:

- (i) held for trading investments with an aggregate carrying value of approximately HK\$52,498,000 (31 December 2015: HK\$38,362,000); and
- (ii) bank deposits of approximately HK\$1,116,000 (31 December 2015: HK\$1,119,000).

As at 30 June 2016, the Group had utilised margin loan facilities from financial institutions of approximately HK\$2,181,000 (31 December 2015: HK\$Nil). The margin loan facilities were charged at SCB Prime Rate minus 2.75%.

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

- (i) leasehold land and buildings with a carrying value of approximately HK\$29,299,000 (31 December 2015: HK\$29,871,000); and
- (ii) investment properties of approximately HK\$31,400,000 (31 December 2015: HK\$31,400,000).

Net asset value

The net asset value of the Group as at 30 June 2016 was approximately HK\$0.58 (31 December 2015: HK\$0.57) per share based on 326,923,607 (31 December 2015: 318,337,607) shares in issue on that date.

Employees and remuneration policies

As at 30 June 2016, the Group employed approximately 1,280 (2015: 1,450) 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.



FUTURE PLAN AND PROSPECT (CONTINUED)

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 2016, 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 2016, 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.



CORPORATE GOVERNANCE (CONTINUED)

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 an independent non-executive director of the Company, was not present at the annual general meeting of the Company held on 31 May 2016. 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.

CORPORATE GOVERNANCE (CONTINUED)

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 by-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.

Ms. Pang Siu Yin ("Ms. Pang"), a partner of the Company's legal adviser, Cheung Tong & Rosa Solicitors, was the company secretary (the "Company Secretary") of the Company for the six months ended 30 June 2016. Ms. Pang has resigned as the Company Secretary on 25 August 2016, and Ms. Cho Yi Ping ("Ms. Cho"), a partner of Cheung Tong & Rosa Solicitors, has been appointed as the Company Secretary since 25 August 2016. The Company has 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 the Company Secretary. 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 the Company Secretary through the contact persons assigned. Having in place a mechanism that the Company Secretary will get hold of the Group's development promptly without material delay and with the expertise and experience of the external service provided, the Board is confident that having Ms. Pang or Ms. Cho as the company secretary is beneficial to the Group's compliance of the relevant board procedures, applicable laws, rules and regulations.



CORPORATE GOVERNANCE (CONTINUED)

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 2016 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 2016 of the Company now reported on.



CORPORATE GOVERNANCE (CONTINUED)

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 report, Mr. Poon Siu Chung, 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, 25 August 2016