

默默耕耘
Continuing Efforts



Perfectech

Perfectech International Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 765)

Interim Report 2006

*For the six months ended
30th June 2006*

CORPORATE INFORMATION

Board of Director

Executive Directors:

Mr. Poon Siu Chung
(*Chairman and Managing Director*)
Mr. Leung Ying Wai, Charles
(*Deputy Chairman*)
Mr. Ip Siu On
Mr. Tsui Yan Lee, Benjamin

Non-executive Director:

Mr. Tong Wui Tung

Independent Non-executive Directors:

Mr. Ng Siu Yu, Larry
Mr. Lam Yat Cheong
Mr. Yip Chi Hung

Company Secretary

Ms. Pang Siu Yin

Auditors

Deloitte Touche Tohmatsu

Legal Adviser

Cheung, Tong and Rosa

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head office and principal place of business

3rd Floor, Perfectech Centre
64 Wong Chuk Hang Road
Aberdeen
Hong Kong

Principal bankers

The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank
Hang Seng Bank

Hong Kong share and warrant registrars and transfer office

Standard Registrars Limited
26th Floor Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2006

		(Unaudited)	
		For the six months	
		ended 30th June,	
		2006	2005
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	2 & 3	196,231	197,567
Cost of sales		<u>(166,777)</u>	<u>(173,866)</u>
Gross profit		29,454	23,701
Other income	4	6,317	3,935
Distribution costs		(9,357)	(9,805)
Administrative expenses		(20,196)	(21,334)
Other expenses	5	(1,575)	(1,355)
Finance costs		<u>(321)</u>	<u>(429)</u>
Profit before tax		4,322	(5,287)
Income tax expenses	7	<u>(268)</u>	<u>(3)</u>
Profit for the period		<u>4,054</u>	<u>(5,290)</u>
Attributable to:			
Equity holders of the parent		3,740	(5,097)
Minority interests		<u>314</u>	<u>(193)</u>
		<u>4,054</u>	<u>(5,290)</u>
Dividends paid	8	<u>4,622</u>	<u>13,788</u>
Earnings (loss) per share	9		
Basic		<u>1.21 cents</u>	<u>(1.66) cents</u>
Diluted		<u>N/A</u>	<u>(1.66) cents</u>

CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2006 AND 31ST DECEMBER 2005

		(Unaudited) 30th June, 2006 HK\$'000	(Audited) 31st December, 2005 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	80,400	85,411
Prepaid lease payments		324	366
Investment properties		8,340	8,340
Goodwill		3,882	3,882
Deferred tax assets		1,053	1,062
		<hr/>	<hr/>
		93,999	99,061
CURRENT ASSETS			
Inventories		132,920	93,485
Trade and other receivables	<i>11</i>	89,868	82,250
Prepaid lease payments		74	69
Amount due from a minority shareholder of a subsidiary		190	200
Tax recoverable		1,734	2,220
Investment in bonds		257	629
Investments held-for-trading		15,581	8,451
Derivative financial instruments		350	350
Pledged bank deposits		12,852	8,724
Bank balances and cash		18,620	32,279
		<hr/>	<hr/>
		272,446	228,657
CURRENT LIABILITIES			
Trade and other payables	<i>12</i>	67,981	49,773
Tax liabilities		1,419	820
Bank borrowings			
– due within one year	<i>14</i>	27,692	6,000
Bank overdraft		455	–
Obligations under a finance lease			
– due within one year	<i>13</i>	34	135
		<hr/>	<hr/>
		97,581	56,728
NET CURRENT ASSETS			
		<hr/>	<hr/>
		174,865	171,929
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
		268,864	270,990

		(Unaudited) 30th June, 2006 <i>HK\$'000</i>	(Audited) 31st December, 2005 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Deferred tax liabilities		2,682	3,022
Bank borrowings			
– due after one year	<i>14</i>	–	500
		<u>2,682</u>	<u>3,522</u>
NET ASSETS		<u>266,182</u>	<u>267,468</u>
CAPITAL AND RESERVES			
Share capital	<i>15</i>	30,663	31,054
Reserves		229,132	230,341
		<u>259,795</u>	<u>261,395</u>
Equity attributable to equity holders of the parent		259,795	261,395
Minority interests		6,387	6,073
		<u>266,182</u>	<u>267,468</u>
TOTAL EQUITY		<u>266,182</u>	<u>267,468</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2006

	(Unaudited)					Retained profits	Total	Minority interests	Total
	Share capital	Share premium	Capital redemption reserve	Translation reserve	Share options reserve				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2006	31,054	77,723	2,605	67	881	149,065	261,395	6,073	267,468
Dividends	-	-	-	-	-	(4,622)	(4,622)	-	(4,622)
Repurchase and cancellation of shares	(391)	-	391	-	-	(2,017)	(2,017)	-	(2,017)
Recognition of equity-settled share based payment	-	-	-	-	1,323	-	1,323	-	1,323
Exchange difference on translation of overseas operations	-	-	-	(24)	-	-	(24)	-	(24)
Profit for the period	-	-	-	-	-	3,740	3,740	314	4,054
At 30th June, 2006	<u>30,663</u>	<u>77,723</u>	<u>2,996</u>	<u>43</u>	<u>2,204</u>	<u>146,166</u>	<u>259,795</u>	<u>6,387</u>	<u>266,182</u>
At 31st December, 2004	30,640	74,618	2,529	67	-	152,883	260,737	17,470	278,207
Effect of changes in accounting policies	-	-	-	-	-	1,263	1,263	-	1,263
At 1st January, 2005	30,640	74,618	2,529	67	-	154,146	262,000	17,470	279,470
Dividends	-	-	-	-	-	(13,788)	(13,788)	-	(13,788)
Share issued at premium	290	1,473	-	-	-	-	1,763	-	1,763
Recognition of equity-settled share based payment	-	-	-	-	1,952	-	1,952	-	1,952
Transfer from share options reserve	-	476	-	-	(476)	-	-	-	-
Acquisition of additional equity interest in a subsidiary	-	-	-	-	-	-	-	(11,762)	(11,762)
Profit for the period	-	-	-	-	-	(5,097)	(5,097)	(193)	(5,290)
At 30th June, 2005	<u>30,930</u>	<u>76,567</u>	<u>2,529</u>	<u>67</u>	<u>1,476</u>	<u>135,261</u>	<u>246,830</u>	<u>5,515</u>	<u>252,345</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH USED IN OPERATING ACTIVITIES	(15,786)	(29,903)
NET CASH USED IN INVESTING ACTIVITIES	(12,756)	(16,411)
NET CASH FROM FINANCING ACTIVITIES	14,452	44,844
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,090)	(1,470)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	32,279	17,327
Effect of foreign exchange rate changes	(24)	–
CASH AND CASH EQUIVALENTS AT 30TH JUNE	<u>18,165</u>	<u>15,857</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	18,620	18,312
Bank overdraft	(455)	(2,455)
	<u>18,165</u>	<u>15,857</u>

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 34 (HKAS 34) Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

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 31st December, 2005 except as described below:

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2006 as follows:

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environment rehabilitation funds
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment

The application of these new HKFRSs has had no significant impact on the Group’s result and financial position.

2. BUSINESS SEGMENTS

For management purposes, the Group's business is currently divided into four segments, namely manufacture and sale of novelties and decorations, manufacture and sale of packaging products, trading of PVC films and plastic materials and manufacture and sale of toys products forming the basis of the Group's business segments reporting.

For the six months ended 30th June, 2006 (Unaudited)

	Novelties and decorations <i>HK\$ '000</i>	Packaging products <i>HK\$ '000</i>	PVC films and plastic materials <i>HK\$ '000</i>	Toys <i>HK\$ '000</i>	Eliminations <i>HK\$ '000</i>	Consolidated <i>HK\$ '000</i>
REVENUE						
External sales	27,835	70,778	37,821	59,797	-	196,231
Inter-segment sales	3	8,442	3,745	-	(12,190)	-
Total revenue	<u>27,838</u>	<u>79,220</u>	<u>41,566</u>	<u>59,797</u>	<u>(12,190)</u>	<u>196,231</u>
RESULT						
Segment result	<u>1,219</u>	<u>(3,175)</u>	<u>1,013</u>	<u>5,117</u>	<u>(863)</u>	3,311
Income from investments						2,508
Unallocated corporate expenses						(1,176)
Finance costs						(321)
Profit before tax						4,322
Income tax expenses						(268)
Profit for the period						<u>4,054</u>

Inter-segment sales are charged at prevailing market rates.

BALANCE SHEET*As at 30th June, 2006 (Unaudited)*

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toys <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	104,189	115,814	43,250	60,461	323,714
Unallocated corporate assets					<u>42,731</u>
Consolidated total assets					<u><u>366,445</u></u>
LIABILITIES					
Segment liabilities	23,233	24,292	2,265	18,954	68,744
Bank borrowings					28,181
Unallocated corporate liabilities					<u>3,338</u>
Consolidated total liabilities					<u><u>100,263</u></u>

OTHER INFORMATION*For the six months ended 30th June, 2006 (Unaudited)*

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toys <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	1,440	1,148	84	2,067	4,739
Depreciation of property, plant and equipment	2,594	4,228	32	2,896	9,750
Release of prepaid lease payments	-	-	-	37	37

For the six months ended 30th June, 2005 (Unaudited)

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toys <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE						
External sales	25,687	67,946	59,774	44,160	–	197,567
Inter-segment sales	<u>397</u>	<u>8,652</u>	<u>2,139</u>	<u>1,936</u>	<u>(13,124)</u>	<u>–</u>
Total revenue	<u>26,084</u>	<u>76,598</u>	<u>61,913</u>	<u>46,096</u>	<u>(13,124)</u>	<u>197,567</u>
RESULT						
Segment result	<u>(2,572)</u>	<u>(821)</u>	<u>1,063</u>	<u>(813)</u>	<u>(956)</u>	(4,099)
Income from investments						578
Unallocated corporate expenses						(1,337)
Finance costs						<u>(429)</u>
Loss before tax						(5,287)
Income tax expenses						<u>(3)</u>
Loss for the period						<u>(5,290)</u>

Inter-segment sales are charged at prevailing market rates.

BALANCE SHEET*As at 31st December, 2005 (Audited)*

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toys <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	79,419	107,724	45,572	58,821	291,536
Unallocated corporate assets					<u>36,182</u>
Consolidated total assets					<u><u>327,718</u></u>
LIABILITIES					
Segment liabilities	10,149	20,237	1,132	16,824	48,342
Bank borrowings					6,500
Unallocated corporate liabilities					<u>5,408</u>
Consolidated total liabilities					<u><u>60,250</u></u>

OTHER INFORMATION*For the six months ended 30th June, 2005 (Unaudited)*

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toys <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	2,825	5,448	16	1,359	9,648
Depreciation of property, plant and equipment	2,735	4,268	29	3,175	10,207
Release of prepaid lease payments	-	-	-	37	37

3. GEOGRAPHICAL SEGMENTS

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

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales revenue by geographical market:		
Hong Kong	114,836	135,544
Europe	28,313	13,036
America	21,287	17,843
Asia (other than Hong Kong)	30,567	27,912
Others	1,228	3,232
	<u>196,231</u>	<u>197,567</u>

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

	(Unaudited)	(Audited)
	30th June,	31st December,
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	146,297	139,807
The People's Republic of China (the "PRC")	220,148	187,911
	<u>366,445</u>	<u>327,718</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 30th June,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	39	35
The PRC	4,700	9,613
	<u>4,739</u>	<u>9,648</u>

4. OTHER INCOME

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	214	242
Interest income	361	322
Dividend income from investments held-for-trading	84	175
Gain on disposal of investments held-for-trading	3,999	1,720
Gain on disposal of investment in bonds	–	37
Gain on disposal of property, plant and equipment	–	103
Others	1,659	1,336
	<u>6,317</u>	<u>3,935</u>

5. OTHER EXPENSES

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Decrease in fair value of investments held-for-trading	1,575	1,322
Exchange loss	–	33
	<u>1,575</u>	<u>1,355</u>

6. PROFIT BEFORE TAX

Profit before tax was stated after charging depreciation of HK\$9,750,000 (2005 : HK\$10,207,000)

7. INCOME TAX EXPENSES

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax charge comprises:		
Hong Kong Profits tax		
Current year	598	274
Deferred taxation	(330)	(271)
	<u>268</u>	<u>3</u>

Hong Kong Profits tax is calculated at 17.5% of the estimated assessable profits for both periods.

8. DIVIDENDS PAID

	(Unaudited)	
	For the six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
Final paid:		
1.5 cents per share for 2005		
(2005: 4.5 cents per share for 2004)	4,622	13,788
	<u>4,622</u>	<u>13,788</u>

The directors have resolved to declare an interim dividend of 1 cent (2005: 0.5 cent) per share.

9. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on profit attributable to equity shareholders of the Company for the period of approximately HK\$3,740,000 (2005 : loss of HK\$5,097,000) and the following data :

	(Unaudited)	
	For the six months ended 30th June,	
	2006	2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	308,570,590	306,621,497
Effect of dilutive potential ordinary shares on share options	—	1,072,381
	<u>308,570,590</u>	<u>307,693,878</u>

No diluted earnings per share has been presented because the exercise prices of the Company's options were higher than the average market prices of the shares for the six months ended 30th June, 2006.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$4,739,000 (2005: HK\$9,648,000).

11. TRADE AND OTHER RECEIVABLES

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

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

	(Unaudited) 30th June, 2006 <i>HK\$'000</i>	(Audited) 31st December, 2005 <i>HK\$'000</i>
0-60 days	66,495	48,281
61-90 days	12,869	13,147
91-120 days	4,148	10,114
Over 120 days	3,660	6,921
	<u>87,172</u>	<u>78,463</u>

12. TRADE AND OTHER PAYABLES

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

	(Unaudited) 30th June, 2006 <i>HK\$'000</i>	(Audited) 31st December, 2005 <i>HK\$'000</i>
0-60 days	35,887	24,725
61-90 days	3,436	4,367
91-120 days	1,015	632
Over 120 days	968	339
	<u>41,306</u>	<u>30,063</u>

13. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	30th June, 2006	31st December, 2005	30th June, 2006	31st December, 2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount payable under a finance lease:				
Within one year	34	138	34	135
Less: Future finance charges	—	(3)	—	—
	<u>34</u>	<u>135</u>	<u>34</u>	<u>135</u>
Present value of lease obligations				
	<u>34</u>	<u>135</u>	34	135
Less: Amount due within one year shown under current liabilities			(34)	(135)
Amount due after one year			<u>—</u>	<u>—</u>

It is the Group's policy to lease certain of its plant and equipment under a finance lease. The average lease term is 3 years. For the period ended 30th June, 2006, the average effective borrowing rate was 2.6% (31st December, 2005:2.6%). Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangements has been entered into for contingent rental payments.

The Group's obligations under a finance lease are secured by the lessors' charge over the leased assets.

14. BANK BORROWINGS

	(Unaudited) 30th June, 2006 <i>HK\$'000</i>	(Audited) 31st December, 2005 <i>HK\$'000</i>
Bank loans	3,500	6,500
Trust receipt loans	24,192	—
	<u>27,692</u>	<u>6,500</u>

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

	(Unaudited) 30th June, 2006 <i>HK\$'000</i>	(Audited) 31st December, 2005 <i>HK\$'000</i>
Within one year	27,692	6,000
In the second year	—	500
	<u>27,692</u>	<u>6,500</u>
Less: Amount due within one year shown under current liabilities	<u>(27,692)</u>	<u>(6,000)</u>
	<u>—</u>	<u>500</u>

During the period, the Group did not obtain any new bank loan (31st December, 2005: HK\$18,000,000).

15. SHARE CAPITAL

	(Unaudited)			
	Authorised		Issued and fully paid	
	For the six months ended 30th June,			
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.1 each				
At beginning of the period	70,000	70,000	31,054	30,640
Issue of shares on exercise of options	—	—	—	290
Share repurchased and cancelled	—	—	(391)	—
	<u>70,000</u>	<u>70,000</u>	<u>30,663</u>	<u>30,930</u>

16. COMMITMENTS

(a) Capital commitments for property, plant and equipment

	(Unaudited) 30th June, 2006 <i>HK\$'000</i>	(Audited) 31st December, 2005 <i>HK\$'000</i>
Contracted but not provided for	335	34
Authorised but not contracted for	14	–
	<u>349</u>	<u>34</u>

(b) Operating lease commitments

At 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) 30th June, 2006 <i>HK\$'000</i>	(Audited) 31st December, 2005 <i>HK\$'000</i>
Within one year	5,688	4,939
Over 1 year but within 5 years	10,114	7,207
Over five years	35,886	33,198
	<u>51,688</u>	<u>45,344</u>

Operating lease payments represent rental payable by the Group for certain of its office and factory properties. Leases are negotiated for a term from one year to 38 years.

17. OTHER COMMITMENTS

At 30th June, 2006, the Group carried outstanding forward contracts which entitled commitments for purchase of listed securities of approximately HK\$50,804,000 (31st December, 2005: HK\$27,963,000). In the opinion of the directors, the commitments will be settled monthly with an amount ranging from HK\$4 million to HK\$7 million. All acquired listed securities are held for trading purposes and will be disposed shortly and the proceeds of which will be mainly used to finance the purchase of listed securities being committed in accordance with the forward contracts. Hence, the commitments are not expected to have a material impact on the overall cash flow of the Group.

18. 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 30th June,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental expenses paid to:		
Nice Step Investment Limited (<i>Note</i>)	585	430
Mr. Poon Siu Chung	84	84
	<u> </u>	<u> </u>

Note: Mr. Leung Ying Wai, Charles, a director of the Company, has beneficial interest in Nice Step Investment Limited.

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

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend for the six months ended 30th June, 2006 of 1 cent per share (2005: 0.5 cent) payable on or about 12th October, 2006 to shareholders on the register of members of the Company (the “Register of Members”) on 6th October, 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 5th October, 2006 to 6th October, 2006, 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 Share Registrar, Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 4th October, 2006.

BUSINESS REVIEW

During the period under review, the total revenue of the Group as a whole remained quite constant at approximately HK\$196,231,000 (2005: HK\$197,567,000), representing a less-than-one-percent decrease and recorded a profit attributable to equity shareholders of approximately HK\$3,740,000 (2005: loss of HK\$5,097,000).

The revenues of the segment of PVC film and plastic materials dropped by about 37% compared with last corresponding period’s figure, and this difference in revenue was the biggest amongst the four business segments of the Group. For segment results, the greatest improvement comes from the segment of toy products which achieved turnaround from loss to profit and was the most profitable segment for the period under review. The worst performance comes from the segment of packaging products, which incurred a further loss of almost 4 times the amount from the last corresponding period. Details of the performance of each business segment during the period under review are discussed further below.

After going through a tough year of 2005, the Group continues to face a challenging year of 2006. Keen competitions exist where opportunities exist. The ever-increasing price of petroleum, the by-products of which form major components of the Group’s business, and the annual increase in the minimum wages for labour in the PRC are the two major issues faced by the Group.

Novelties and decorations

The revenue of the novelties and decorations segment increased by about 8% amounting to approximately HK\$27,835,000, with a profit of approximately HK\$1,219,000. As stated in the 2005 Annual Report, it is the Group’s policy to improve the profit margin by raising the selling price. The segment was quite successful in adopting such policy and its performance was thus improved during the first half of the year.

Packaging products

Although the revenue in the packaging segment increased slightly by about 4% amounting to HK\$70,778,000, the segment still recorded a loss of approximately HK\$3,175,000, representing almost 4 times the loss incurred in the last corresponding period. Certain old business lines/products, especially the sales and manufacture of PVC-film packaging products, were no longer profitable and the Group is now in the process of repositioning the product mix. Thus, the performance of this segment will be highly dependent on the success of the new product lines.

Trading activities

Since the price of oil and petroleum has experienced a continuous increase since 2004, the prices for both PVC film and plastic materials have surged accordingly and keep fluctuating significantly. In order to minimize the risks of bad debts from customers who may suffer from high cost of sales due to the high prices of by-products of petroleum, the segment adopts a prudent policy in selecting customers and in controlling the volume of business. As such, the revenue of the segment dropped by about 37% to approximately HK\$37,821,000. Nevertheless, as the segment adopts the policy of maintaining profit margin at a reasonable level, the segment made a contribution of approximately HK\$1,013,000 to the profit of the Group.

Toy products

With the completion of the acquisition of the entire interest in the toy business in June 2005, the benefits from synergy effects, together with the improvement in efficiency and productivity since then, began to reflect in the results of the segment in the first half of the year. The segment recorded a profit of approximately HK\$5,117,000 (while there was a loss of approximately HK\$813,000 in the first half of 2005) and was the most profitable segment of the Group during the period under review. Revenue also increased by about 35% to approximately HK\$59,797,000, almost the same level as in 2004.

Investments

To better utilize the available cash on hand, the Group has invested in the securities of several unlisted companies in different industries as long-term investments. As at 30th June, 2006, the total investments therein were approximately HK\$257,000 (31st December, 2005: HK\$629,000). All of these investments were held in convertible notes or preferred shares, which ensured the earning of regular income from the investments.

Investment in listed securities is held for short-term purposes for capital gain in the value of the securities. As at the balance sheet date, the market value of investment in securities was approximately HK\$15,581,000 (31st December, 2005: HK\$8,451,000).

As at 30th June, 2006, the Group carried outstanding forward contracts which entailed a commitment for purchase of listed securities of notional amount of approximately HK\$50,804,000 (31st December, 2005: HK\$27,963,000). The commitment will be settled monthly with an amount ranging from approximately HK\$4 million to HK\$7 million. Usually the securities acquired will be disposed of shortly, and thus the commitment is not expected to have a material adverse impact on cash flow.

FUTURE PLAN AND PROSPECT

Since the segment of packaging products incurred a substantial loss in the first half of the year, much effort will have to be put in stopping further loss. Measures such as discontinuing the operation of certain businesses within the segment and re-studying the feasibility of new projects are being considered. Further investment on capital expenditure will only be made when necessary.

Although the average 20% increase in the minimum wage of labour in the PRC effective from 1st July, 2006 together with the adverse performance of the segment of packaging products are expected to continue to affect the Group's performance, since the segments of novelties and decorations, due to the improvement in profit margin, and toy products continue to grow and contribute to the Group and are expected to continue improvement in the second half of the year, the Directors of the Company are optimistic about the overall improvement of performance of the Group in the coming quarters.

Liquidity and financial resources

As at 30th June, 2006, the Group had no long-term finance lease obligations and bank borrowings (31st December, 2005: HK\$500,000), while the short-term bank borrowings and overdraft were approximately HK\$28,181,000 (31st December, 2005: HK\$6,135,000), and the net book value of the Group's plant and machinery of approximately HK\$240,000 (31st December, 2005: HK\$297,000) was held under a finance lease. The gearing ratio of the Group, measured by total bank and other borrowings divided by equity, was approximately 10.85% (31st December, 2005: 2.54%).

Finance costs

The Group's finance cost amounted to approximately HK\$321,000 (2005: HK\$429,000).

Pledge of Assets

At 30th June, 2006, 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 of HK\$3,543,000 (31st December, 2005: HK\$2,915,000); and
- (ii) Bank balances and cash of approximately HK\$12,852,000 (31st December, 2005: HK\$8,724,000).

The margin loan facilities utilised by the Group at the balance sheet date amounted to approximately HK\$1,449,000 (31st December, 2005: HK\$1,329,000), which were included in other payables.

Employees and remuneration policies

As at 30th June, 2006, the Group employed approximately 5,300 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 full time employees.

Foreign currency exposure

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar, with some in Renminbi and Euro Dollar. Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exchange risk exposure in this regard.

As for currencies other than Hong Kong Dollar, the Group will closely monitor their movement trends in relation to US Dollar and will engage in exchange rate hedges when necessary.

At 30th June, 2006, the Group did not use any financial instrument for hedging purposes.

SHARE OPTIONS SCHEME

A share option scheme (the "Scheme") was adopted pursuant to the Annual General Meeting held on 17th May, 2002 and will expire on 16th May, 2012. The primary purpose of the Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

Under the Scheme, the board of directors of the Company may offer to any employees, including full time or part time employees, of the Company and/or its subsidiaries including any executive and non-executive director or proposed executive and non-executive director of the Company or any subsidiary options to subscribe for shares in the Company in accordance with the terms of the Scheme for the consideration of HK\$1 for each lot of share options granted.

At the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 17,000,000, representing approximately 5.58% of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue. In addition, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of shares of the Company in issue, at any point at time, without prior approval from the Company's shareholder.

Options granted must remain open for acceptance until 5:00 p.m. on the 5th business day following the offer date provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date or after the Scheme has been terminated. Options may be exercised during the period as the board of directors of the Company 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. The exercise price is determined by the board of directors of the Company and will be at least the highest of the followings:

- a) the closing price of shares at the date of grant of a share option;
- 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.

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

	Number of options outstanding at 1/1/2006	Number of options granted during the period	Number of shares issued and exercise of options during the period	Number of options outstanding at 30/6/2006	Date granted	Exercise price per share HK\$	Exercisable Period
Directors							
– Ip Siu On	3,000,000	–	–	3,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
– Tsui Yan Lee, Benjamin	3,000,000	–	–	3,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
Employees	–	9,000,000	–	9,000,000	24-Mar-06	0.540	24-Apr-06 to 31-Dec-14
	<u>6,000,000</u>	<u>9,000,000</u>	<u>–</u>	<u>15,000,000</u>			
Others	1,000,000	–	–	1,000,000	05-Jun-02	0.664	05-Jul-02 to 17-May-12
	1,000,000	–	–	1,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
	<u>2,000,000</u>	<u>–</u>	<u>–</u>	<u>2,000,000</u>			
Grand Total	<u>8,000,000</u>	<u>9,000,000</u>	<u>–</u>	<u>17,000,000</u>			

The closing price of the Company's shares on 5th June, 2002, 2nd February, 2005 and 24th March, 2006, the dates of grant of the options, were HK\$0.64, HK\$0.60 and HK\$0.52 respectively.

According to the Binomial Option Pricing Model, the details of the options granted during the period under the Scheme were as follows:–

Date of grant	Number of shares issuable under options granted	Option value	Closing share price at date of grant	Risk free rate (being the yield of 10-year Exchange Fund Notes)	Expected volatility – note (i)	Expiration of the options	Expected ordinary dividend note (iii)
24th March, 2006	9,000,000	1,323,000	HK\$0.520	4.540%	41.68%	31st December, 2014	5.29%

- (i) The volatility measured at the standard deviation of expected share price returns is based on the daily closing prices over the one year immediately preceding the date of grant.
- (ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares on the Stock Exchange.
- (iii) Expected ordinary dividend is based on 2006 prospective dividend yield of the shares as at 24th March, 2006.

DIRECTORS' INTERESTS IN SHARES

At 30th June, 2006, the interests and short positions 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 shares of the Company

Directors	Capacity	No. of shares held	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner Interest of spouse and controlled corporation	20,188,000 101,757,630	121,945,630 (a)	39.77
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	20.58
Mr. Ip Siu On	Beneficial owner	6,803,600	6,803,600	2.22
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	3,411,000	3,411,000	1.11
Mr. Ng Siu Yu, Larry	Beneficial owner	880,000	880,000	0.29

Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 20,188,000 shares ("Shares") of the Company and he was deemed to be interested in 101,757,630 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. Of these shares, 618,200 shares are held in trust for others.
- (b) Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 Shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, his spouse, Ms. Tai Yee Foon and his family members.

(B) Right to acquire shares of the Company

Other than the share options disclosed in the section "Share Option Scheme", at no time during the period was the Company or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by the means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

(C) 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
Mr. Leung Ying Wai, Charles	Perfectech International Limited	Interest of spouse	400	400 (e)	50
Mr. Ip Siu On	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18
Mr. Tsui Yan Lee, Benjamin	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18

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.
- (e) Mr. Leung Ying Wai, Charles was deemed to be interested in 400 Perfectech Shares through interests of his spouse, Ms. Tai Yee Foon.

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 in any securities of the Company or any of its associated corporations as defined in the SFO.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section “Directors’ Interests in Shares”, as at 30th June, 2006, the register of substantial shareholders’ interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the share capital of the Company as follows:

Long Positions in shares of the Company

Shareholders	Capacity	No. of shares held	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Interest of spouse and controlled corporation	121,945,630 (f)	39.77
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200 (g)	20.58
Allianz Aktiengesellschaft	Interest of controlled corporation	62,034,971 (h)	20.23
Dresdner Bank Aktiengesellschaft	Interest of controlled corporation	62,034,971 (h)	20.23
Veer Palthe Voute NV	Investment Manager	62,034,971 (h)	20.23

Notes:

- (f) Under SFO, Ms. Lau Kwai Ngor was deemed to be interested in 121,945,630 Shares through interests of her spouse, Mr. Poon Siu Chung (Please refer to Note (a) above).
- (g) Under SFO, Ms. Tai Yee Foon was deemed to be interested in 63,097,200 Shares through interests of her spouse, Mr. Leung Ying Wai, Charles (Please refer to Note (b) above).
- (h) Under SFO, Allianz Aktiengesellschaft and Dresdner Bank Aktiengesellschaft were deemed to be interested in the 62,034,971 shares of the Company held by Veer Palthe Voute NV.

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

During the period under review, the Company purchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of shares of HK\$0.10 each	Price per share		Aggregate consideration paid
		Highest HK\$	Lowest HK\$	HK\$
January 2006	350,000	0.540	0.530	188,552
February 2006	430,000	0.530	0.510	226,891
March 2006	1,592,000	0.550	0.480	805,985
May 2006	624,000	0.530	0.510	323,684
June 2006	910,000	0.520	0.510	472,414
	<u>3,906,000</u>			<u>2,017,526</u>

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (“Code Provisions”) contained in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange as its own code of corporate governance.

During the period under review, the Company had complied with the Code Provisions except for the following deviations:

Code A.2.1

Code A.2.1 stipulates that the roles of chairman and 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 is taken by the Managing Director. Mr. Poon Siu Chung is the Chairman and Managing Director of the Company. 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 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.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms not less exacting than the required standard set out in Appendix 10 of the Listing Rules (“Model Code”).

After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding Directors’ securities transactions during the six months ended 30th June, 2006.

Audit Committee

The Company has established an audit committee which comprises all non-executive Directors, Mr. Tong Wui Tung, Mr. Yip Chi Hung, Mr. Lam Yat Cheong and Mr. Ng Siu Yu, Larry. Mr. Ng Siu Yu, Larry is 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 30th June, 2006 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. Tong Wui Tung as a non-executive Director, Mr. Lam Yat Cheong, Mr. Yip Chi Hung, who is also the chairman of the Committee, and Mr. Ng Siu Yu, as independent non-executive Directors, 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 on Corporate Governance contained in Appendix 14 of the Listing Rules.

POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company has purchased its own shares through the Stock Exchange as follows:

	No. of shares of HK\$0.10 each	Price per share		Aggregate consideration
		Highest HK\$	Lowest HK\$	paid HK\$
Month of repurchase				
July 2006	1,060,000	0.550	0.530	579,835
August 2006	<u>764,000</u>	0.550	0.550	<u>423,634</u>
	<u>1,824,000</u>			<u>1,003,469</u>

DIRECTORS OF THE COMPANY

As at the date of this report, Mr. Poon Siu Chung, Mr. Leung Ying Wai, Charles, Mr. Ip Siu On and Mr. Tsui Yan Lee, Benjamin are the executive directors of the Company, Mr. Ng Siu Yu, Larry, Mr. Yip Chi Hung, and Mr. Lam Yat Cheong are the independent non-executive directors of the Company, and Mr. Tong Wui Tung is the non-executive director of the Company.

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

Hong Kong, 13th September, 2006