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Continuing Efforts

Perfectech

Perfectech International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 765)

Annual Report 2005

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Continuing Efforts

Contents

Corporate Information

BOARD OF DIRECTORS

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 ADVISOR

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at 3:30 p.m. on 24 May 2006 at Chater Room III, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong for the purpose of transacting the following business:

ORDINARY BUSINESS

1. To receive and consider the consolidated audited financial statements and the reports of the directors of the Company ("Directors") and the auditors of the Company ("Auditors") for the year ended 31 December 2005.

2. To declare a final dividend of 1.5 cents per share.

3. To re-elect the retiring Directors

4. To authorise the board of Directors of the Company to fix the Directors' remuneration.

5. To re-appoint Messrs. Deloitte Touche Tohmatsu as the Auditors and authorise the board of directors of the Company to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions (with or without modification):

As Ordinary Resolutions

6. "**THAT**

   a. a general mandate be and is hereby unconditionally given to the Directors to exercise during the Relevant Period (as hereinafter defined) all the powers of the Company to allot, issue and deal with unissued shares in the Company ("Share") or securities convertible into Shares or options, warrants or similar rights to subscribe for any Shares and to make or grant offers, agreements or options which would or might require the exercise of such powers either during or after the Relevant Period, in addition to any Shares which may be issued from time to time on a Rights Issue (as hereinafter defined) or under any option scheme or similar arrangement for the time being adopted for the grant or issue of Shares or rights to acquire Shares or any scrip dividend pursuant to the articles of association of the Company, not exceeding twenty per cent. of the aggregate nominal value of the share capital of the Company in issue as at the date of this resolution; and

b. for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

   i. the conclusion of the next annual general meeting of the Company;

   ii. the expiration of the period within which the next annual general meeting of the Company is required by law or the articles of association of the Company to be held; and

   iii. the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting;

   and "Rights Issue" means an offer of Shares open for a period fixed by the Directors to holders of Shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractions entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or of the requirements of any recognised regulatory body or any stock exchange applicable to the Company)."

7. "**THAT** there be granted to the Directors an unconditional general mandate to repurchase Shares, and that the exercise by the Directors of all powers of the Company to purchase Shares subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved, subject to the following conditions:

   (a) such mandate shall not extend beyond the Relevant Period;

   (b) such mandate shall authorise the Directors to procure the Company to repurchase Shares at such price as the Directors may at their discretion determine;

   (c) the Shares to be repurchased by the Company pursuant to paragraph (a) of this resolution during the Relevant Period shall be no more than ten per cent. of the Shares in issue at the date of passing this resolution; and

Notice of Annual General Meeting

(d) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by law or the articles of association of the Company to be held; and

iii. the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

8. "**THAT**, subject to the availability of unissued share capital and conditional upon the resolutions nos. 6 and 7 above being passed, the aggregate nominal amount of the Shares which are repurchased by the Company pursuant to and in accordance with resolution no. 7 above shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with resolution no. 6 above."

By order of the Board
Poon Siu Chung
Chairman

Hong Kong, 28 April 2006

Notes:

1. The Hong Kong Branch Register of Members of the Company will be closed from 22 May 2006 to 24 May 2006 (both days inclusive), during which period no transfers of Shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting to be held on 24 May 2006, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Standard Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 19 May 2006.

2. A member of the Company who is a holder of two or more Shares, and who is entitled to attend and vote at the Annual General Meeting is entitled to appoint more than one proxy or a duly authorised corporate representative to attend and vote in his stead. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending the Annual General Meeting and vote in person. In such event, his form of proxy will be deemed to have been revoked.

Notice of Annual General Meeting

3. A form of proxy for the Annual General Meeting is enclosed with the 2005 annual report of the Company. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the Annual General Meeting or any adjournment thereof.

4. With regard to resolutions nos. 6 and 8 above, the Directors wish to state that they have no immediate plans to issue any new Shares of the Company pursuant to the general mandate granted under resolution no 6 above.

5. As at the date of this notice, the board of Directors is composed of Mr. Poon Siu Chung, Mr. Leung Ying Wai, Charles, Mr. Ip Siu On and Mr. Tsui Yan Lee, Benjamin as executive Directors, Mr. Tong Wui Tung as non-executive Director and Mr. Ng Siu Yu, Larry, Mr. Lam Yat Cheong and Mr. Yip Chi Hung as independent non-executive Directors.

Chairman's Statement

RESULTS

The Directors have resolved to announce the audited consolidated results for the year ended 31st December, 2005. Total turnover for the year amounted to HK$515,875,000 (2004: HK$509,820,000). The net profit stood at HK$10,701,000 (2004: HK$22,590,000). Earnings per share were 3.46 cents (2004: 7.40 cents, as restated).

Chairman's Statement

FINAL DIVIDEND

The Directors recommend the payment of a final dividend for the year ended 31st December, 2005 of 1.5 cents per share (2004: 4.5 cents per share) payable to shareholders on the register of members of the Company (the "Register of Members") on 24th May, 2006. This dividend together with the interim dividend of 0.5 cent per share (2004: 1 cent per share), will make a total of 2.0 cents per share for the year (2004: 5.5 cents per share). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on or about 6th June, 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 22nd May, 2006 to 24th May, 2006, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong at Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 19th May, 2006.

BUSINESS REVIEW

During the year, the turnover of the Group increased by approximately 12% to HK$515,875,000, while the net profit for the year was HK$10,701,000 representing a drop of approximately 53%. The gentle growth in turnover was mainly contributed by the former three-core segments of the Group, while the turnover of the toys segment dropped quite substantially. The performance of each segment will be further discussed below.

The year of 2005 was a year of challenge for the Group, or even a tough year. First of all, due to the keen competition in various business segments of the Group, it was hard to maintain profitability at a reasonable level as before. Secondly, the prices of various kinds of raw materials had risen continuously during the past two years making it harder for the Group to maintain profitability. Thirdly, the continuing increase in the wages level in the People's Republic of China (the "PRC") led to an ever-increasing cost of production in the PRC. Despite our effort in cutting the staff costs for the toys segment, the staff cost of the Group still increased by more than 3% in the PRC.

For the year 2005, the profits of the Group included a revaluation surplus on investment property of approximately HK$4,040,000, and after the deduction of a share related payment on the share options granted to employees of approximately HK$1,497,000, and an impairment loss of goodwill of approximately HK$1,760,000, which arose from the acquisition of the remaining 41% portion of the shareholdings in the toys segment (the "Acquisition"), Perfectech International Manufacturing Limited ("PIML"). The Acquisition has been completed in the first half of 2005, and since then PIML has become a wholly owned subsidiary of the Group.

Finance costs increased by about 61% to approximately HK$2,115,000. This was mainly due to the increase in the interest rate during the year and also the raising of a term loan by the Group as working capital for future expansion and development during the year.

FUTURE PLAN & PROSPECT

Since the Group experienced a tough year in 2005, it signaled that the business of the group stepped into a period of change and challenge. In order to maintain profitability to survive, a number of measures have been implemented, such as the adoption of further cost control, on one hand, both in production plants in the PRC, and in the administrative units in Hong Kong, and on the other hand, to raise the selling price of certain products that are proved to be competitive.

Future capital investment in of the Group will only be made in those of the four core business segments that have been proved to be profitable in recent years, while diversification and development of new products are encouraged within the availability and capacity of present equipments.

In view of the performance of the Group in 2005 with the potential risks in the re-positioning of certain business segments of the Group in 2006, although the Directors are prudently confident that the performance of the toys segment will be improved as a results of the effects of synergy and cost control in the toys division, together with growth in the molding division, the Directors are of the view that 2006 will remain a very difficult and challenging year for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENT RESULTS

Novelties and decorations

The turnover of this segment for the year remained quite stable and stood at approximately HK$141,656,000, while the segment result decreased by about 43% to approximately HK$8,070,000. The result of the segment dropped substantially due to keen competition, leading to the decrease in the selling price of our finished products, and the increase of production costs as stated above.

For the coming year, it is the Group's policy to raise the selling price to improve profit margin instead of by cutting price to boost the revenue, and to change the ways of production and even the methods of rewarding the labour in order to increase productivity.

Chairman's Statement

Packaging products

The turnover of packaging products to external customers increased slightly by about 4% to HK$150,457,000, while the segment result substantially decreased by about 71% to HK$3,244,000. Such a decrease in segment result was also due to keen competition and increase in labour costs.

In order to improve the segment result, the Group is now undergoing a plan for the repositioning in the product mix. For those products/businesses that are unprofitable, it is the Group's policy to abandon such items no matter how they had contributed to the Group in the past. On the other hand, concentration and efforts will be made on some items that are potentially more profitable.

Trading activities

The turnover of the trading of PVC film and plastic materials further increased by about 32% to HK$109,387,000, as a result of organic growth of the segment since its reorganization in 2003, together with the continuing recovery of both the local and global economies. However, the segment result recorded a loss of approximately HK$714,000 for the year, as a result of decrease in profit margin due to keen competition.

Toy products

The turnover of this segment was approximately HK$114,375,000 representing a decrease of about 19%, while the segment result therefrom was approximately HK$4,370,000, representing a decrease of about 12%. Due to the change of the Chief Executive Officer and shareholding of this segments as a result of the Acquisitions, the operation of the segment was disturbed to a certain degree. Nevertheless, the decrease in contribution bring less in proportionate to the decrease in turnover symbolized that the performance had improved.

Investments

To well utilize the available cash on hand, the Group has invested in the securities of several unlisted companies in different industries as long-term investment. As at 31st December, 2005, the total investment therein was about HK$629,000. All of these investments were held in interest-bearing notes, which ensured the earning of regular income from the investment.

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$8,451,000.

Besides investing in stock markets, the Group may also utilize its cash on hand for foreign currencies cash deposits with local banks in order to earn a higher return of interest income, and also the potential capital gain thereon.

Liquidity and financial resources

As at 31st December, 2005, the long-term finance lease obligation and bank loan of the Group were approximately HK$500,000 (2004: HK$135,000), while the short term bank borrowings were HK$6,135,000 (2004: HK$5,951,000), and the net book value of the Group's plant and machinery of HK$297,000 (2004: HK$412,000) was held under a finance lease. The gearing ratio, measured by total bank and other borrowings divided by equity, of the Group was 2.54% (2004: 2.33%).

At balance sheet date, the Group had bank balances and cash of approximately HK$41,003,000 (2004: HK$39,152,000).

With cash and other current assets at 31st December, 2005 of HK$229 million as well as available banking facilities, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Net asset value

The net asset value of the Group as at 31st December, 2005 was HK$0.84 per share based on the actual number of 310,539,607 shares in issue on that date.

Employees and remuneration policies

As at 31st December, 2005, the Group employed approximately 3,000 full time employees. The Group remunerates its employees largely based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

Foreign currency exposure

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

In relation to other currencies, the Group will closely monitor their trends in relation to US Dollar and will engage in exchange rate hedges when necessary.

Chairman's Statement

At the balance sheet date, the Group did not use any financial instrument for hedging purposes.

APPRECIATION

Finally, I would like to take this opportunity to thank all my fellow Directors and the staff for their contribution and cordial support during the year.

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

Hong Kong, 25th April, 2006

Biographical Details of Directors and Senior Management Staff

DIRECTORS

Executive Directors

Mr. POON Siu Chung, aged 56, is the Chairman and Managing Director of the Company. Mr. Poon is the co-founder of the group and has over 30 years' experience in the plastic industry and toy business. He oversees the Group's operations and is responsible for formulating the Group's overall corporate policies and development plans.

Mr. LEUNG Ying Wai, Charles, aged 56, is the Deputy Managing Director of the Company and the co-founder of the Group. Mr. Leung advises on the Group's overall corporate policies and development plans. He holds a Bachelor of Business Administration Degree from the Chinese University of Hong Kong and has over 30 years' experience in the manufacturing field.

Mr. IP Siu On, aged 52, is primarily responsible for the sales and marketing of the Group's Packaging products. Before joining the Group in 1984, Mr. Ip had over 10 years' experience in the field of dye mixing and packaging products.

Mr. TSUI Yan Lee, Benjamin, aged 46, is responsible for the sales and marketing of the Group's novelties and festival decorations. Prior to joining the Group in 1983, he worked in a manufacturing company as a sales executive for over 3 years.

Non-executive Director

Mr. TONG Wui Tung, aged 56, is a solicitor of The Supreme Court of Hong Kong and has over 20 years' experience in the legal field, 16 years of which were as the partner of Messrs. Cheung, Tong & Rosa. He is a non-executive director of Yip's Chemical Holdings Limited and Wonson International Holdings Limited, companies listed on The Stock Exchange of Hong Kong Limited.

Independent non-executive Directors

Mr. NG Siu Yu, Larry, aged 50, is a member of the Hong Kong Institute of Certified Public Accounts and the Association of Chartered Certified Accountants. He has over 10 years' experience in the field of finance and accounting and is currently the managing director of a private company engaged in financial printing.

Mr. LAM Yat Cheong, aged 45, graduated from the Hong Kong Baptist University. Mr. Lam is a Certified Public Accountant and a sole proprietor of an audit firm and has over 18 years of auditing and accounting experience. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute Public Accountants. He is also an independent non-executive director of Lee's Pharmaceutical Holdings Limited, a company listed in Hong Kong.

Biographical Details of Directors and Senior Management Staff

Mr. YIP Chi Hung, aged 47, is experienced in the construction industry. Mr. Yip is a director of Fong Wing Shing Construction Company Limited. He has over 20 years of experience on a variety of building and maintenance projects for both the public and private sectors and is also well versed in the development of properties in Hong Kong and Singapore. He is also the chairman and executive director of PacMOS Technologies Holdings Limited, a company listed in Hong Kong.

SENIOR MANAGEMENT

Mr. FUNG Kun Kwai, aged 52, is the factory manager of the Group. He joined the Group in 1978 and has more than 20 years' experience in vacuum forming operations. Mr. Fung is responsible for overseeing the production facilities of the Group.

Mr. YUEN Che Wai, Victor, aged 40, is the Group's financial controller. Mr. Yuen is a member of the Hong Kong Institute of Certified Public Accountant and the Association of Chartered Certified Accountants. He is responsible for the overall supervision on the accounting and finance functions of the Group. Mr. Yuen holds a diploma in accounting from the Hong Kong Shue Yan College. He joined the Group in 1991 and has more than 10 years' experience in the audit and accounting field.

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

From accounting periods commencing on or after 1 January 2005, listed companies in Hong Kong are required to comply with the code provisions (the "Code Provisions") set out in the "Code on Corporate Governance Practices" (the "Code") issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), with one exception regarding the code on internal controls, which comes into effect for accounting periods commencing on or after 1 July 2005. Meanwhile, the rules on the Corporate Governance Report are found in a new Appendix 23 of the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules").

Throughout the year ended 31 December 2005, the Company has adopted the Code and has complied with the Code Provisions, save for the following deviation.

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 is taken up 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 calibre 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.

Corporate Governance Report

THE BOARD OF DIRECTORS

The Role of the Board

The Board is responsible for formulating strategies and business plans for the Group, and is collectively responsible for its success.

The types of decisions taken out by the Board include:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies.

The Board has delegated decisions in relation to daily operation and administration responsibilities to management under the supervision of the Managing Director.

Board Composition

The Board comprises 8 Directors, 4 of whom are Executive Directors, 1 being a Non-Executive Director ("NED") and 3 being Independent Non-Executive Directors ("INEDs"). All Directors served for the full year of 2005. For the biographies of the Directors, please refer to this Annual Report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

As explained earlier, both the roles of the Chairman and Managing Director are taken up by Mr. Poon Siu Chung.

The NED and INEDs of the Company are professionals in different fields, and two of the INEDs have appropriate professional qualifications of accounting or related financial management expertise. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders and the Group as a whole.

Pursuant to Listing Rule 3.13, the Group has received a written confirmation from the INEDs of their independent status, and the Board considers that they are independent.

Board Process

In addition to Board meetings that are held regularly to discuss and approve the Group's results, additional Board meetings are held from time to time to discuss important matters that require the Board's attention and decision. In 2005, there were 20 Board meetings held, and the attendance of the Directors is set out below:

Directors	**Attendance**	
	Regular Board Meeting	**Special Board Meeting**
Executive Directors		
Poon Siu Chung *(Chairman)*	4/4	16/16
Ip Siu On	4/4	13/16
Tsui Yan Lee, Benjamin	4/4	11/16
Leung Ying Wai	2/4	1/16
Non-Executive Director		
Tong Wui Tung	3/4	2/16
Independent Non-Executive Directors		
Ng Siu Yu	4/4	2/16
Yip Chi Hung	4/4	2/16
Lam Yat Cheong	4/4	2/16

Regular Board meetings are attended to by a majority of the Directors in person or through other electronic means of communication.

Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major matters that require the Board's attention or decision. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive Directors attend.

The Chairman of the Board ensures that the Board works effectively and that all important issues are discussed in a timely manner. All Directors are supplied with Board papers and relevant materials within a period of time acceptable to members of the Board prior to every Board meeting. All Directors have access to the Company Secretary for advice on compliance matters, and they have access to management for enquiries and to obtain information. If necessary, they may also take independent professional advice at the expense of the Group.

Nomination, Appointment and Re-election of Directors

The Board has not established a Nomination Committee, and the Board itself is responsible for the selection and approval of new Directors. The Board adopts the procedure and criteria below for nomination of Directors:

Procedure for Nomination of Directors

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).

2. Prepare a description of the role and capabilities required for the particular vacancy.

3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.

4. Arrange interview(s) with each candidate for the Board to evaluate whether he meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.

5. Conduct verification on information provided by the candidate.

6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

1. Common Criteria for All Directors
   - (a) Character and integrity
   - (b) The willingness to assume broad fiduciary responsibility
   - (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
   - (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company
   - (e) Significant business or public experience relevant and beneficial to the Board and the Company
   - (f) Breadth of knowledge about issues affecting the Company
   - (g) Ability to objectively analyse complex business problems and exercise sound business judgment
   - (h) Ability and willingness to contribute special competencies to Board activities
   - (i) Fit with the Company's culture

2. Criteria Applicable to NEDs/INEDs

   (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings

   (b) Accomplishments of the candidate in his or her field

   (c) Outstanding professional and personal reputation

   (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

In 2005, there had not been any vacancy to fill within the Board, and the Board did not engage in any work in relation to the appointment or removal of Directors.

A Director appointed by the Board to fill a casual vacancy can hold office only until the next annual general meeting ("AGM") after the appointment, by when he will be subject to election by shareholders. Every Director shall be subject to retirement by rotation at the annual general meeting at least once every three years.

In the last AGM held on 10 May 2005, all the NED and INEDs were elected to hold office for a specific term of approximately one year until the next AGM, subject to re-election by shareholders.

Directors' Securities Transactions

The Company has adopted a code of conduct governing the Directors' transactions in securities of the Group on no less exacting terms than the standard set out in Appendix 10 of the Listing Rules (the "Model Code").

Following specific enquiry by the Group, all Directors have confirmed that throughout year 2005 they complied with the required standard set out in the Model Code for securities transactions.

The Directors' interests in shares of the Group as at 31 December 2005 are set out in this Annual Report.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee

The Remuneration Committee makes recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management.

The Committee comprises Mr. Tong Wui Tung as an NED, Mr. Lam Yat Cheong, Mr. Yip Chi Hung, who is also the chairman of the Committee, and Mr. Ng Siu Yu as INEDs, 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 available at the Company's website http://www.perfectech.com.hk.

During 2005, the Committee met once and discussed the following matters:

- various aspects of the remuneration of the Executive Directors and senior management; and
- the amount of remuneration that Executive Director Mr. Leung Ying Wai would receive for the financial year commencing from 1 January 2005.

Details of the members' attendance at the Remuneration Committee meeting in 2005 are as follows:

Members	**Attendance**
Poon Siu Chung	1/1
Ng Siu Yu	1/1
Lam Yat Cheong	1/1
Yip Chi Hung	1/1
Tong Wui Tung	1/1
Yuen Che Wai	1/1

Emolument Policy and Long-Term Incentive Plan

The Company adopts different emolument policies for Executive Directors and NEDs:

Emolument Policy for Executive Directors ("EDs")

1. A proportion of EDs' remuneration should be structured so as to link rewards to corporate and individual performance.

2. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of EDs.

3. The performance-related elements of remuneration should be designed to align the EDs' interests with those of shareholders and to give these Directors keen incentives to perform at the highest levels.

4. Factors for Defining Performance-Based Remuneration:

    4.1. Eligibility for annual bonuses and any upper limits

    4.2. Annual bonuses should be linked to relevant performance indicators designed to enhance the Company's business

    4.3. Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company's performance

    4.4. Examples of performance indicators:

        (a) share price

        (b) net earnings figure

Emolument Policy for NEDs

1. Levels of emolument of NEDs should reflect the time commitment and responsibilities of the role.

2. NEDs should have the opportunity to take part of their remuneration in shares but share options should be granted in accordance with the Listing Rules.

Principles of Long-Term Incentive Schemes

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.

2. The link between executive reward and company performance should be strong and clear.

3. Grants under such schemes should be phased rather than awarded in one large block.

The emolument payable to the Directors is determined with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar positions. The details of the fees and any other reimbursement or emolument payable to the Directors are set out in details in this Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for the integrity of the financial information of the Group. The Directors acknowledge their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Audit Committee

The Audit Committee usually meets twice a year to review and monitor the financial reporting and internal control procedures of the Company.

The Audit Committee is governed by its terms of reference, which are available at the Group's website http://www.perfectech.com.hk.

The Audit Committee comprises 4 members, namely Mr. Ng Siu Yu, who is also the chairman of the Committee, Mr. Lam Yat Cheong and Mr. Yip Chi Hung, who are INEDs, and Mr. Tong Wui Tung, who is an NED. Both Mr. Lam and Mr. Ng have professional qualifications in accounting.

The details of the members' attendance in Committee meetings in 2005 are as follows:

Members	Attendance
Ng Siu Yu	2/2
Lam Yat Cheong	2/2
Yip Chi Hung	2/2
Tong Wui Tung	2/2

Other attendees at the Audit Committee meetings include the Financial Controller and the external auditors, for discussion of the audit of the annual results only.

The Audit Committee's work in 2005 includes consideration of the following matters:

- the completeness and accuracy of the 2004 annual and 2005 interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the management letter submitted by the external auditors summarizing matters arising from their audit of the Group for year 2004;
- detailed analysis of various aspects of the Company's financial performance, including:
    - investment policies and possible impact of certain investment transactions;
    - timing of collection of accounts receivable and provisions for doubtful debts;
    - follow-up on the issuance of title/ownership certificates for certain real properties owned by the Group in the PRC;
    - the mode of operation of the toys business;
    - the action plan for turning around the Group's loss in the 1st half of 2005.

External Auditors

The Group's external auditor is Deloitte Touche Tohmatsu. During 2005, the Group did not engage Deloitte Touche Tohmatsu in any non-audit services, and paid Deloitte Touche Tohmatsu approximately HK$1,182,000.00 for its audit services.

The Audit Committee has recommended to the Board to re-appoint Deloitte Touche Tohmatsu for conducting statutory audits for the Group for the financial year of 2006, which the Board has agreed. This is subject to approval and authorization by the shareholders at the 2006 AGM.

CORPORATE COMMUNICATION

The Group values and strives to provide comprehensive and timely communications to its stakeholders, including its shareholders.

Shareholders' Rights

Further to the Companies Act 1981 of Bermuda and the Company's Bye-Laws, a special general meeting ("SGM") can be convened on requisition.

The most recent shareholders' meeting was the AGM held on 10 May 2005 at the Ritz-Carlton Hotel in Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated audited financial statements and reports for the Directors and auditors for the year ended 31 December 2004;
- declaring the final dividend;
- re-electing certain Directors and authorizing the Board to fix their remunerations;
- re-appointing auditors and authorizing the Board to fix their remunerations;
- passing a general mandate to allow the Directors to allot and issue shares of the Company;
- passing a general mandate to allow the Directors to repurchase shares of the Company; and
- amending the Bye-Laws of the Company;

Change in the Company's Bye-Laws

During 2005, there was one change to the Company's Bye-Laws. Bye-Law 99 regarding the rotation of Directors has been amended so that all Directors, including those appointed for a specific term, shall be subject to retirement by rotation at the annual general meeting at least once every three years, pursuant to the requirement under the Code, and the retiring Directors shall be eligible for re-election.

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 43 to the financial statements.

During the year, the Group further acquired from the minority shareholders the remaining 41% equity interest in Perfectech International Manufacturing Limited, a company engaged in manufacture and trading of toy products, for a total consideration of HK$17 million.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 40.

An interim dividend of 0.5 cent per share amounting to approximately HK$1,557,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 1.5 cents per share to the shareholders on the register of members on 24th May, 2006, amounting to approximately HK$4,623,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the total turnover.

The five largest suppliers of the Group in aggregate accounted for approximately 54% of the total purchases of the Group and the largest supplier accounted for approximately 32% of the total purchases of the Group.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest suppliers.

INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the year end date. The revaluation resulted in a surplus of approximately HK$4,040,000, which has been credited directly to the consolidated income statement.

Details of this movement during the year in the investment properties of the Group are set out in note 17 to the financial statements.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

The Group continued its replacement policy and expended HK$15,369,000 on property, plant and equipment during the year.

Details of this and other movements during the year in the property, plant and equipment and prepaid lease payments of the Group are set out in note 15 and 16 to the financial statements.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 32 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31st December, 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$52,460,000 of which HK$4,623,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$77,723,000, may be distributed in the form of fully paid bonus shares.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

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

In accordance with Clause 99(B) of the Company's bye-laws, Mr. Poon Siu Chung retires by rotation and, being eligible, offers himself for re-election.

DIRECTOR'S SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

All non-executive directors have been appointed for a term of approximately one year.

All non-executive director and independent non-executive directors will hold office until the conclusion of the forthcoming annual general meeting of the Company.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31st December, 2005, 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 under Section 352 of Part XV 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

Director	Capacity	No. of shares held	Total		% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner	19,688,000			
	Interest of spouse and controlled corporation	101,757,630	121,445,630	(a)	39.11
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200	(b)	20.32
Mr. Ip Siu On	Beneficial owner	6,803,600	6,803,600		2.19
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	3,411,000	3,411,000		1.10
Mr. Ng Siu Yu, Larry	Beneficial owner	880,000	880,000		0.28

Notes:

(a) Mr. Poon Siu Chung was the beneficial owner of 19,688,000 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) Long position in shares of associated corporations of Company

Director	Name of associated corporation	Capacity	No. of shares held	Total	% of issued share capital of the associated corporation
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner	200		
		Interest of spouse	200	400 (d)	50
	Sunflower Garland Manufactory Limited	Beneficial owner	60,800		
		Interest of spouse	20,800	81,600 (e)	51
Mr. Leung Ying Wai, Charles	Perfectech International Limited	Interest of spouse	400	400 (f)	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.

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 options" 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 debenture of the Company or any of its associated corporations as at 31st December, 2005.

Report of the Directors

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 39 to the financial statements.

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

	Number of options outstanding at 1.1.2005	Number of options granted during the year	Number of exercised options during the year	Number of options outstanding at 31.12.2005	Date granted	Exercise price per share *HK$*	Exercisable period
Directors							
Ip Siu On	–	3,000,000	–	3,000,000	2nd February, 2005	0.608	2nd May, 2005 – 31st December, 2014
Tsui Yan Lee, Benjamin	–	3,000,000	–	3,000,000	2nd February, 2005	0.608	2nd May, 2005 – 31st December, 2014
Employees	–	4,900,000	(4,900,000)	–	2nd February, 2005	0.608	2nd May, 2005 – 31st December, 2014
	–	10,900,000	(4,900,000)	6,000,000			
Others	1,000,000	–	–	1,000,000	5th June, 2002	0.664	5th July, 2002 – 17th May, 2012
	–	1,000,000	–	1,000,000	2nd February, 2005	0.608	2nd May, 2005 – 31st December, 2014
	1,000,000	1,000,000	–	2,000,000			
Grant Total	1,000,000	11,900,000	(4,900,000)	8,000,000			

The closing price of the Company's shares on 5th June, 2002 and 2nd February, 2005, the dates of grant of the options, were HK$0.66 and HK$0.60 respectively.

The weighted average closing price of the shares on the dates on which options were exercised was HK$0.618.

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

Date of grant	Number of shares issuable under options granted	Option value	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)
2nd February, 2005	11,900,000	HK$1,497,000	2.811%	37.82%	31st December, 2014	8.33%

(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 2005 prospective dividend yield of the shares as at 2nd February, 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

(a) During the year, Perfectech International Limited ("Perfectech"), a wholly-owned subsidiary of the Company, entered into tenancy agreements to rent the following premises from Nice Step Investment Limited, a company controlled by Mr. Leung Ying Wai, Charles, a substantial shareholder and director of the Company:

(i) premises at the 1st floor (with gross floor area of approximately 5,070 sq.ft.) of Perfertech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of one year commencing from 11th July, 2005 at a monthly rent of HK$25,350.

(ii) premises at the 2nd floor (with gross floor area of approximately 5,070 sq.ft.) and car parking space No.3 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 20th April, 2003 at a monthly rent of HK$21,266.

Report of the Directors

(iii) premises at the 3rd floor (with gross floor area of approximately 5,070 sq.ft.) and car parking space No.4 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 20th April, 2003 at a monthly rent of HK$21,266.

(iv) premises at the 4th floor (with gross floor area of approximately 3,096 sq.ft.), flat roof at the 4th floor (with gross floor area of approximately 1,963 sq.ft.) and car parking space No.5 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 20th April, 2003 at a monthly rent of HK$18,280.

(v) premises at the 5th floor (with gross floor area of approximately 3,096 sq.ft.) of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 15th August, 2003 at a monthly rent of HK$10,836.

During the year, the Group paid rental expenses of approximately HK$999,000 to Nice Step Investment Limited.

(b) On 2nd February, 2005, Perfectech entered into a tenancy agreement with Mr. Poon Siu Chung, a substantial shareholder and director of the Company, in relation to premises at Nos. 34 and 35 of Xiazha Industrial Street, Jinding Town, Zhuhai, the People's Republic of China, for a monthly rent of HK$14,000 for a period of three years commencing from 1st January, 2005. The said premises are used by the Group as factories. The total rent payable by the Group for the premises for the full period of the tenancy under the aforesaid tenancy agreement will amount to HK$504,000. During the year, the Group paid rent to Mr. Poon Sui Chung totalling HK$168,000.

(c) During the year, the Group issued guarantees to financial institutions to secure general banking facilities granted to the Group including its subsidiaries which are not wholly-owned by the Group, known as Perfectech Paper Products Company Limited ("Paper"), Perfectech Printing Company Limited ("Printing") and Shouji Tooling Factory Limited ("Shouji"). Details of the guarantees and amount utilised as at 31st December, 2005 are as follows:

Subsidiaries connected	**In favour of**	**Guarantee amount** *HK$*	**Amount utilised** *HK$*
Paper and Printing	Standard Chartered Bank	33,800,000	–
	The Hong Kong and Shanghai Banking Corporation Limited	90,000,000	–
Shouji	Standard Chartered Bank	30,500,000	–
	The Hong Kong and Shanghai Banking Corporation Limited	50,000,000	–
	Hang Seng Bank	40,000,000	–

The independent non-executive directors confirm that the transactions have been entered into by the Group (i) in the ordinary and usual course of its business; (ii) in accordance with the terms of the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole and (iii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties.

Other than as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section "Directors' Interests in Shares", as at 31st December, 2005, 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 shares capital of the Company as follows (please also see Note (c) below): –

Long positions in shares of the Company

Shareholder	Capacity	No. of shares held	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Interest of spouse and controlled corporation	121,445,630 (a)	39.11
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200 (b)	20.32
Allianz Aktiengesellschaft	Interest of controlled corporation	62,404,971 (c)	20.10
Dresdner Bank Aktiengesellschaft	Interest of controlled corporation	62,404,971 (c)	20.10
Veer Palthe Voûte NV	Investment Manager	62,404,971 (c)	20.10

Notes:

(a) Under the SFO, Ms. Lau Kwai Ngor was deemed to be interested in 121,445,630 shares of the Company through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 19,688,000 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) Under the SFO, Ms. Tai Yee Foon was deemed to be interested in 63,097,200 shares of the Company through interests of her spouse, Mr. Leung Ying Wai, Charles. 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, Ms. Tai Yee Foon and his family members.

(c) Subsequent to 31st December, 2005, the Company on 21st March, 2006 received the notices of interest from Allianz Aktiengesellschaft, Dresdner Bank Aktiengesellschaft and Veer Palthe Voûte NV which showed that as at 31st December, 2005 they had noticeable interests under the SFO as set out above.

Under the SFO, Allianz Aktiengesellschaft and Dresdner Bank Aktiengesell schaft were deemed to be interested in the 62,404,971 shares of the Company held by Veer Palthe Voûte NV.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

CORPORATE GOVERNANCE

The Company has adopted throughout the year ended 31st December, 2005 with the Code of Corporate Governance Practices ("Code Provision") set out in the Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report in page 15 to 26 of this annual report.

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

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

	No. of shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$*
Month of repurchase				
November 2005	322,000	0.59	0.56	187,804
December 2005	440,000	0.58	0.55	249,202
	762,000			437,006

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set by the Board and reviewed by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Board and reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 39 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 41 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Poon Siu Chung
Chairman & Managing Director

Hong Kong, 25th April, 2006

Report of the Auditors

Deloitte.
德勤

TO THE MEMBERS OF PERFECTECH INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Perfectech International Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 40 to 104 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25th April, 2006

Consolidated Income Statement

For the year ended 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Revenue	6 & 7	**515,875**	509,820
Cost of sales		**(442,747)**	(420,568)
Gross profit		**73,128**	89,252
Other income		**8,473**	5,674
Distribution costs		**(24,431)**	(24,750)
Administrative expenses		**(41,327)**	(40,733)
Other expenses	8	**(1,543)**	(1,249)
Increase in fair value of investment properties		**4,040**	–
Surplus on revaluation of investment properties		**-**	300
Impairment loss on goodwill		**(1,760)**	–
Finance costs	9	**(2,115)**	(1,314)
Profit before tax	10	**14,465**	27,180
Income tax expenses	12	**(2,982)**	(1,884)
Profit for the year		**11,483**	25,296
Attributable to:			
Equity holders of the parent		**10,701**	22,537
Minority interests		**782**	2,759
Profit for the year		**11,483**	25,296
Dividends paid	13	**15,345**	13,788
Earnings per share	14		
Basic		**3.46 cents**	7.40 cents
Diluted		**N/A**	7.39 cents

Consolidated Balance Sheet

At 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**85,411**	91,846
Prepaid lease payments	16	**366**	1,013
Investment properties	17	**8,340**	4,300
Goodwill	18	**3,882**	321
Deferred tax assets	31	**1,062**	1,038
		99,061	98,518
CURRENT ASSETS			
Inventories	20	**93,485**	99,420
Trade and other receivables	21	**82,250**	90,900
Prepaid lease payments	16	**69**	84
Amount due from a minority shareholder of a subsidiary	22	**200**	200
Tax recoverable		**2,220**	610
Investment in bonds	23	**629**	–
Investments held-for-trading	24	**8,451**	–
Investments in securities	25	**–**	12,375
Derivative financial instruments	26	**350**	–
Pledged bank deposits	27 & 34	**8,724**	21,264
Bank balances and cash	22	**32,279**	17,888
		228,657	242,741
CURRENT LIABILITIES			
Trade and other payables	28	**49,773**	52,892
Tax liabilities		**820**	1,383
Bank borrowings – due within one year	29	**6,000**	5,195
Bank overdraft	29	**–**	561
Obligations under a finance lease – due within one year	30	**135**	195
		56,728	60,226

Consolidated Balance Sheet

At 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
NET CURRENT ASSETS		**171,929**	182,515
TOTAL ASSETS LESS CURRENT LIABILITIES		**270,990**	281,033
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*31*	**3,022**	2,441
Bank borrowings – due after one year	*29*	**500**	–
Obligations under a finance lease – due after one year	*30*	**–**	135
		3,522	2,576
NET ASSETS		**267,468**	278,457
CAPITAL AND RESERVES			
Share capital	*32*	**31,054**	30,640
Reserves		**230,341**	230,347
Equity attributable to equity holders of the parent		**261,395**	260,987
Minority interests		**6,073**	17,470
TOTAL EQUITY		**267,468**	278,457

The financial statements on pages 40 to 104 were approved and authorised for issue by the board of directors on 25th April, 2006 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	Share capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translations reserve HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Attributable to equity holders of the parent HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2004 as originally stated	28,170	60,895	–	2,529	62	–	144,081	235,737	–	235,737
Effect of changes in accounting policies (Note 2A)	–	–	–	–	–	–	303	303	14,711	15,014
At 1st January, 2004 restated	28,170	60,895	–	2,529	62	–	144,384	236,040	14,711	250,751
Exchange difference on translation of overseas operations	–	–	–	–	5	–	–	5	–	5
Deficit on evaluation of investment in securities	–	–	(500)	–	–	–	–	(500)	–	(500)
Net income recognised directly in equity	–	–	(500)	–	5	–	–	(495)	–	(495)
Profit for the year (as restated)	–	–	–	–	–	–	22,537	22,537	2,759	25,296
Total recognised income for the year	–	–	(500)	–	5	–	22,537	22,042	2,759	24,801
Dividends (Note 13)	–	–	–	–	–	–	(13,788)	(13,788)	–	(13,788)
Shares issued at premium	2,470	13,723	–	–	–	–	–	16,193	–	16,193
Reversal of impairment loss for investment in securities charged to income statement	–	–	500	–	–	–	–	500	–	500
At 31st December, 2004 (as restated)	30,640	74,618	–	2,529	67	–	153,133	260,987	17,470	278,457
Effect of changes in accounting policies (Note 2A)	–	–	–	–	–	–	1,013	1,013	–	1,013
At 1st January 2005	30,640	74,618	–	2,529	67	–	154,146	262,000	17,470	279,470
Profit for the year	–	–	–	–	–	–	10,701	10,701	782	11,483
Recognition of equity – settled share based payment	–	–	–	–	–	1,497	–	1,497	–	1,497
Dividends (Note 13)	–	–	–	–	–	–	(15,345)	(15,345)	(417)	(15,762)
Shares issued at premium	490	2,489	–	–	–	–	–	2,979	–	2,979
Transfer from share options reserve	–	616	–	–	–	(616)	–	–	–	–
Repurchase and cancellation of shares	(76)	–	–	76	–	–	(437)	(437)	–	(437)
Acquisition of additional equity interest in subsidiaries (Note 33)	–	–	–	–	–	–	–	–	(11,762)	(11,762)
At 31st December, 2005	**31,054**	**77,723**	**–**	**2,605**	**67**	**881**	**149,065**	**261,395**	**6,073**	**267,468**

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 HK$'000	2004 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**14,465**	27,180
Adjustments for:		
Impairment loss on trade receivables	**321**	1,654
Amortisation of goodwill	**–**	107
Impairment loss on goodwill	**1,760**	–
Release of prepaid lease payments	**77**	90
Depreciation of property, plant and equipment	**20,337**	18,635
Dividend income from trading securities	**–**	(469)
Dividend income from investments held-for-trading	**(363)**	–
Finance costs	**2,115**	1,314
Gain on disposals of investments held-for-trading	**(2,808)**	–
Gain on disposals of trading securities	**–**	(58)
Reversal of impairment loss on investment in bonds	**(500)**	–
Impairment loss recognised in respect of other securities	**–**	500
Written down of inventories	**1,996**	1,153
Interest income	**(878)**	(1,876)
(Gain) loss on disposals of property, plant and equipment and prepaid lease payments	**(207)**	210
Share-based payment expenses	**1,497**	–
Surplus on revaluation of investment properties	**–**	(300)
Increase in fair value of investment properties	**(4,040)**	–
Decrease in fair value of investments held-for-trading	**880**	–
Unrealised holding loss on trading securities	**–**	749
Decrease in fair value of derivatives	**663**	–
Operating cash flows before movements in working capital	**35,315**	48,889
Decrease (increase) in inventories	**3,939**	(26,693)
Decrease (increase) in trade and other receivables	**8,246**	(14,946)
(Increase) decrease in trade and other payables	**(3,119)**	448
Cash generated from operations	**44,381**	7,698
Hong Kong Profits Tax paid	**(4,515)**	(1,000)
NET CASH FROM OPERATING ACTIVITIES	**39,866**	6,698
INVESTING ACTIVITIES		
Purchase of investments held-for-trading	**(114,906)**	–
Purchase of trading securities	**–**	(137,529)
Acquisition of additional interest in subsidiaries (note 33)	**(17,083)**	–
Purchase of property, plant and equipment	**(15,369)**	(21,719)
Proceeds on disposals of investments held-for-trading	**118,519**	–
Proceeds on disposals of trading securities	**–**	130,692
Decrease (increase) in pledged bank deposits	**12,540**	(13,764)
Proceeds on disposal of property, plant and equipment and prepaid lease payments	**2,259**	133
Proceeds on redemption of other securities	**–**	792
Proceeds on redemption of in bonds	**2,110**	–
Dividend received from investments held-for-trading	**363**	–
Interest income received	**878**	1,876
Dividend received from trading securities	**–**	469
NET CASH USED IN INVESTING ACTIVITIES	**(10,689)**	(39,050)

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005	2004
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Interest paid	**(2,115)**	(1,314)
Repayment of bank borrowings	**(16,695)**	(26,193)
Dividends paid	**(15,345)**	(13,788)
Payment for repurchase of shares	**(437)**	–
Dividend paid to minority shareholders	**(417)**	–
Repayment of obligations under a finance lease	**(195)**	(186)
New bank borrowing raised	**18,000**	6,510
Proceeds from issue of new shares	**2,979**	16,193
NET CASH USED IN FINANCING ACTIVITIES	**(14,225)**	(18,778)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**14,952**	(51,130)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**17,327**	68,452
Effect of foreign exchange rate change	**–**	5
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	**32,279**	17,327
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**32,279**	17,888
Bank overdrafts	**–**	(561)
	32,279	17,327

Notes to the Financial Statements

For the year ended 31st December, 2005

1. GENERAL

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office is Cannon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and principal place of business is 3rd Floor, Perfectech Centre, 64 Wong Chuk Hang Road, Aberdeen, Hong Kong.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activities of the Group are the manufacture and sale of novelties, decorations, packaging and toys products, and the trading of PVC films and plastic materials.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, 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 (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1st January, 2005. In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the transitional provisions in HKFRS 3. On 1st January, 2005, the Group eliminated the carrying amount of the related accumulated amortisation of HK$749,000 with a corresponding decrease in the cost of goodwill (Note 18). The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (Note 2A for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Share-based Payments

In the current year, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November, 2002 and vested before 1st January, 2005 (Note 2A for the financial impact). The Group has no share options granted after 7th November, 2002 but not yet vested on 1st January 2005.

Financial Instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From 1st January, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

Furthermore, HKAS 39 requires derivatives embedded in a non-derivative host contract to be accounted for separately when the economic risks and characteristics are not closely related to the host contract and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in income statement (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

On 1st January, 2005, the Group classified investment in listed securities amounted to HK$10,136,000 as held for trading investments, and the debt element of the investment in convertible bonds amounted to HK$2,239,000 as loans and receivables. The fair value of the embedded options of the investment in bonds has not been separated from the debt element as the amount involved is insignificant.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Derivatives and hedging

From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

Prior to HKAS 39, the Group has not recognised any derivative financial instruments. The Group has applied the relevant transitional provisions in HKAS 39. For derivatives that do not meet the requirements of hedge accounting in accordance with HKAS 39, the Group has, from 1st January, 2005 onwards, deemed such derivatives as held for trading. The Group measured its derivative at fair value and HK$1,012,889 was recognised as derivative financial instruments on 1st January, 2005 (Note 2A for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (Note 2A for the financial impact).

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. However, there has been no material effect on how the results are prepared and presented (Note 2A for the financial impact).

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (Note 2A for the financial impact).

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Non-amortisation of goodwill	**266**	–
Loss arising from changes in fair value of derivatives	**(663)**	–
Increase in changes in fair value of investment properties	**2,606**	–
Increase in deferred taxes relating to investment properties	**(707)**	(53)
Recognition of share based payments as expenses	**(1,497)**	–
Increase (decrease) in profit for the year	**5**	(53)

Analysis of increase in profit for the year by line items presented according to their function.

	2005	2004
	HK$'000	*HK$'000*
Increase in administrative expense	**(1,894)**	–
Increase in fair value of investment properties	**2,606**	–
Increase in income tax expense	**(707)**	(53)
Increase (decrease) in profit for the year	**5**	(53)

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated)	Retrospective adjustments			As at 31st December, 2004 (restated)	Prospective adjustments	As at 1st January, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		HKAS 1	**HKAS 17**	**HK(SIC)–INT 21**		**HKAS 39**	
Balance sheet items							
Property, plant and equipment	92,502	–	(656)	–	91,846	–	91,846
Prepaid lease payments	–	–	1,097	–	1,097	–	1,097
Long term prepayments	441	–	(441)	–	–	–	–
Held-for-trading investments	–	–	–	–	–	10,136	10,136
Investment in bonds	–	–	–	–	–	2,239	2,239
Investment in securities	12,375	–	–	–	12,375	(12,375)	–
Deferred tax assets	860	–	–	178	1,038	–	1,038
Derivative financial instruments	–	–	–	–	–	1,013	1,013
Deferred tax liabilities	(2,513)	–	–	72	(2,441)	–	(2,441)
Other net assets	174,542	–	–	–	174,542	–	174,542
Total effects on assets and liabilities	278,207	–	–	250	278,457	1,013	279,470
Share capital	30,640	–	–	–	30,640	–	30,640
Retained profits	152,883	–	–	250	153,133	1,013	154,146
Other reserves	77,214	–	–	–	77,214	–	77,214
Minority interests	–	17,470	–	–	17,470	–	17,470
Total effects on equity	260,737	17,470	–	250	278,457	1,013	279,470
Minority interests	17,470	(17,470)	–	–	–	–	–

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised below:

	As originally stated	**HKAS 1**	**HK(SIC)– INT 21**	**As restated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share capital	28,170	–	–	28,170
Retained profits	144,081	–	303	144,384
Other reserves	63,486	–	–	63,486
Minority interests	–	14,711	–	14,711
Total effects on equity	235,737	14,711	303	250,751

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no or any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]

Notes to the Financial Statements

For the year ended 31st December, 2005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.

[2] Effective for annual periods beginning on or after 1st January, 2006.

[3] Effective for annual periods beginning on or after 1st December, 2005.

[4] Effective for annual periods beginning on or after 1st March, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the new Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

An investment property is derecognised upon disposal or when the investment propriety is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (the "foreign currencies") are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and state-managed retirement benefit schemes are charged as an expense as they fall due.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets as held for trading and those designated at fair value through profit or loss on initial recognition. The Group classified certain financial assets as held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including bank balances pledged bank deposits, trade and other receivables, amount due from a minority shareholder of a subsidiary and investment in convertible notes) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Financial liabilities

Financial liabilities including trade and other payables, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

The Group uses derivative financial instruments (primarily forward contracts) to hedge its exposure against price risk on held-for-trading investments. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

Derivatives of the Group do not qualify for hedge accounting thus they are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Impairment losses (other than goodwill – see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgment that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation

The Group's net book value of property, plant and equipment as at 31st December, 2005 was HK$85,411,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 5% to 30% per annum or over the term of the lease, commencing from the date the assets is placed into productive use. The estimated useful life and dates that the Group places the assets into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Impairment on trade receivables

The policy for impairment on trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each customer and future discounted cash flow. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Impairment on inventories

The management of the Group reviews an aging analysis at each balance sheet date, and identified obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and provide impairment on obsolete items.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2005, the carrying amount of goodwill is HK$3,882,000. Details of the recoverable amount calculation are disclosed in note 19.

Income taxes

As at 31st December, 2005, a deferred tax asset of HK$2,449,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and other receivables, amount due from a minority shareholder of a subsidiary, bank balances, obligations and a finance lese, and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group is exposed to both cash flow interest rate risk and fair value interest rate risk through the impact of rate changes on interest bearing bank borrowings and obligations under finance leases respectively. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The interest rate and terms of repayment of bank borrowings and obligations under finance leases of the Group are disclosed in notes 29 and 30 respectively.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Liquidity risk

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to floating interest rate and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

Notes to the Financial Statements

For the year ended 31st December, 2005

6. REVENUE

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

	2005	2004
	HK$'000	*HK$'000*
Novelties and decorations products	**141,656**	140,412
Packaging products	**150,457**	145,074
PVC films and plastic materials	**109,387**	83,012
Toys products	**114,375**	141,322
	515,875	509,820

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four business segments, namely the manufacture and sale of novelties and decorations products, the manufacture and sale of packaging products, the trading of PVC films and plastic materials and the manufacture and sale of toy products. These business segments are the basis on which the Group reports its primary segment information.

2005

	Novelties and decorations products HK$'000	Packaging products HK$'000	PVC films and plastic materials HK$'000	Toy products HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE						
External sales	141,656	150,457	109,387	114,375	–	515,875
Inter-segment sales	533	32,397	4,884	3,058	(40,872)	–
Total revenue	142,189	182,854	114,271	117,433	(40,872)	515,875
RESULT						
Segment result	8,070	3,244	(714)	4,370	(1,474)	13,496
Income from investments						4,256
Unallocated corporate expenses						(1,172)
Finance costs						(2,115)
Profit before tax						14,465
Income tax expenses						(2,982)
Profit for the year						11,483

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

For the year ended 31st December, 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

BALANCE SHEET

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

OTHER INFORMATION

	Novelties and decorations products HK$'000	Packaging products HK$'000	PVC films and plastic materials HK$'000	Toy products HK$'000	Others HK$'000	Con-solidated HK$'000
Capital additions	4,097	7,563	20	3,689	–	15,369
Depreciation of property, plant and equipment	5,363	7,936	46	6,982	10	20,337
Release of prepaid lease payments	-	-	-	77	–	77

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

2004

	Novelties and decorations products *HK$'000*	Packaging products *HK$'000*	PVC films and plastic materials *HK$'000*	Toy products *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000* (restated)
REVENUE						
External sales	140,412	145,074	83,012	141,322	–	509,820
Inter-segment sales	354	32,682	4,157	911	(38,104)	–
Total revenue	140,766	177,756	87,169	142,233	(38,104)	509,820
RESULT						
Segment result	14,181	11,133	3,190	4,963	(3,013)	30,454
Income from investments						2,403
Unallocated corporate expenses						(4,363)
Finance costs						(1,314)
Profit before tax						27,180
Income tax expenses						(1,884)
Profit for the year						25,296

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

For the year ended 31st December, 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments *(Continued)*

BALANCE SHEET

	Novelties and decorations products	Packaging products	PVC films and plastic materials	Toy products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (restated)
ASSETS					
Segment assets	85,609	110,651	38,677	62,835	297,772
Unallocated corporate assets					43,487
Consolidated total assets					341,259
LIABILITIES					
Segment liabilities	9,575	17,262	3,383	20,365	50,585
Bank borrowings					5,756
Unallocated corporate liabilities					6,461
Consolidated total liabilities					62,802

OTHER INFORMATION

	Novelties and decorations products	Packaging products	PVC films and plastic materials	Toy products	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	5,159	10,621	219	5,720	–	21,719
Depreciation of property plants and equipment	5,344	6,332	28	6,875	56	18,635
Amortisation of goodwill	–	–	–	–	107	107
Release of prepaid lease payments	–	–	–	90	–	90

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(b) Geographical segments

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

	2005	2004
	HK$'000	HK$'000
Sales revenue by geographical market:		
Hong Kong	316,879	231,029
Europe	110,738	114,828
America	46,016	87,850
Asia (other than Hong Kong)	39,100	74,809
Others	3,142	1,304
	515,875	509,820

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	139,807	145,147	476	584
The People's Republic of China (the "PRC")	187,911	196,112	14,893	21,135
	327,718	341,259	15,369	21,719

Notes to the Financial Statements

For the year ended 31st December, 2005

8. OTHER EXPENSE

	2005	2004
	HK$'000	*HK$'000*
Decrease in fair value of held-for-trading investments	**880**	–
Unrealised holding loss on trading securities	**–**	749
Impairment loss recognised in respect of other securities	**–**	500
Decrease in fair value of derivatives	**663**	–
	1,543	1,249

9. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**1,864**	1,141
Other borrowings wholly repayable within five years	**239**	152
Finance lease wholly repayable within five years	**12**	21
	2,115	1,314

10. PROFIT BEFORE TAX

	2005	2004
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging:		
Amortisation of goodwill (included in administrative expenses)	**–**	107
Release of prepaid lease prepayments		
(included in administrative expenses)	**77**	90
Impairment loss on trade receivables	**321**	1,654
Written down of inventories	**1,996**	1,153
Auditors' remuneration	**1,140**	787
Depreciation of property, plant and equipment	**20,337**	18,635
Foreign exchange losses, net	**2,488**	2,864
Loss on disposals of property, plant and equipment	**–**	210
Staff costs (including directors' emoluments)	**88,611**	88,017
Share-based payments expenses	**1,497**	–
Cost of inventories recognsied as an expense	**295,732**	272,442
and after crediting:		
Interest income	**878**	1,876
Dividend income from investments held-for-trading	**363**	–
Dividend income from trading securities	**–**	469
Gain on disposals of property, plant and equipment and		
prepaid lease payments	**207**	–
Gain on disposals of investments held-for-trading	**2,808**	–
Gain on disposals of trading securities	**–**	58
Reversal of impairment loss on investment in bonds	**500**	–

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eight directors for the year ended 31st December, 2005 were as follows:

		Other emoluments		
	Fees	**Salaries and other benefits**	**Retirement benefit scheme contributions**	**Total emoluments**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Mr. Poon Siu Chung	**–**	**1,792**	**38**	**1,830**
Mr. Leung Ying Wai, Charles	**–**	**–**	**–**	**–**
Mr. Ip Siu On	**–**	**2,162**	**19**	**2,181**
Mr. Tsui Yan Lee, Benjamin	**–**	**2,203**	**18**	**2,221**
Mr. Tong Wui Tung	**100**	**–**	**–**	**100**
Mr. Ng Siu Yu, Larry	**100**	**–**	**–**	**100**
Mr. Lam Yat Cheong	**50**	**–**	**–**	**50**
Mr. Yip Chi Hung	**100**	**–**	**–**	**100**
Total for 2005	**350**	**6,157**	**75**	**6,582**

The emoluments paid or payable to each of the eight directors for the year ended 31st December, 2004 were as follows:

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Poon Siu Chung	–	1,752	38	1,790
Mr. Leung Ying Wai, Charles	–	–	–	–
Mr. Ip Siu On	–	1,617	19	1,636
Mr. Tsui Yan Lee, Benjamin	–	1,614	18	1,632
Mr. Tong Wui Tung	100	–	–	100
Mr. Ng Siu Yu, Larry	100	–	–	100
Mr. Lam Yat Cheong	–	–	–	–
Mr. Yip Chi Hung	–	–	–	–
Total for 2004	200	4,983	75	5,258

No emoluments were paid by the Group to the directors as a discretionary bonus or inducement to join or upon joining the Group or as a compensation for loss of office for both years.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(b) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, three (2004: three) were directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2004: two) individuals were as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	**1,419**	2,541
Retirement benefit schemes contributions	**16**	27
	1,435	2,568

Their emoluments were within the following bands:

	2005	2004
	Number of employees	Number of employees
Nil – HK$1,000,000	**2**	–
HK$1,000,001 – HK$1,500,000	**–**	2
	2	2

12. INCOME TAX EXPENSES

	2005	2004
	HK$'000	HK$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax		
Current year	**1,033**	1,916
Underprovision in prior years	**1,392**	–
	2,425	1,916
Deferred tax (note 31)		
Current year	**557**	(32)
	2,982	1,884

Hong Kong Profit Tax is calculated at 17.5% of the estimated assessable profit for both years.

The tax charge for the year can be reconciled to the profit before taxation as follow:

	2005	2004
	HK$'000	HK$'000
Profit before tax	**14,465**	27,180
Tax at Hong Kong Profits Tax rate of 17.5%	**2,531**	4,756
Tax effect of income not taxable for tax purposes	**(3,300)**	(4,082)
Tax effect of expenses not deductible for tax purposes	**2,532**	1,393
Utilisation of tax losses not previously recognised	**(552)**	(33)
Tax effect on tax losses not recognised	**40**	(150)
Underprovision in prior year	**1,392**	–
Others	**339**	–
Tax charge for the year	**2,982**	1,884

13. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim, paid – 0.5 cent (2004: 1 cent) per share	**1,557**	3,064
Final, paid – 4.5 cents per share for 2004 (2004: 3.5 cents per share for 2003)	**13,788**	10,724
	15,345	13,788

The final dividend of 1.5 cents (2004: 4.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on profit attributable to equity shareholders of the Company for the year of approximately HK$10,701,000 (2004: HK$22,537,000) and the following data:

	2005	2004
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**308,833,859**	304,716,361
Effect of dilutive potential ordinary shares on share options	**–**	308,689
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**308,833,859**	305,025,050

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 year ended 31st December, 2005.

Notes to the Financial Statements

For the year ended 31st December, 2005

14. EARNINGS PER SHARE *(Continued)*

The following table summarises the impact on basic and diluted earnings per share as a result of:

	Impact on basic earnings per share 2005	Impact on basic earnings per share 2004	Impact on diluted earnings per share 2004
	cents	*cents*	*cents*
Reported figures before adjustments	**3.46**	7.41	7.41
Adjustments arising from changes in accounting policies (Note 2A)	**–**	(0.01)	(0.02)
As adjusted/restated	**3.46**	7.40	7.39

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Factory premises	Furniture, fixtures and office equipment	Plant, machinery and moulds	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
As 1st January, 2004						
– As originally stated	3,019	36,852	28,379	187,351	4,111	259,712
– Effect of changes in accounting policies	(854)	–	–	–	–	(854)
– As restated	2,165	36,852	28,379	187,351	4,111	258,858
Additions	–	1,155	3,293	16,470	801	21,369
Disposals	–	–	(1,369)	–	(333)	(1,702)
At 31st December, 2004 and 1st January, 2005	2,165	38,007	30,303	203,821	4,579	278,875
Additions	–	942	1,532	11,986	909	15,369
Reclassification	(173)	173	775	(775)	–	–
Disposals	(1,802)	–	–	(163)	(973)	(2,938)
As 31st December, 2005	190	39,122	32,610	214,869	4,515	291,306
DEPRECIATION AND AMORTISATION						
At 1st January, 2004						
– As originally stated	623	18,251	16,785	130,823	3,452	169,934
– Effect of changes in accounting policies	(181)	–	–	–	–	(181)
– As restated	442	18,251	16,785	130,823	3,452	169,753
Provided for the year	40	1,862	4,760	11,365	608	18,635
Eliminated on disposals	–	–	(1,026)	–	(333)	(1,359)
At 31st December, 2004 and 1st January, 2005	482	20,113	20,519	142,188	3,727	187,029
Provided for the year	24	1,872	3,822	14,028	591	20,337
Eliminated on disposals	(439)	–	–	(89)	(943)	(1,471)
At 31st December, 2005	67	21,985	24,341	156,127	3,375	205,895
CARRYING VALUES						
At 31st December, 2005	123	17,137	8,269	58,742	1,140	85,411
At 31st December, 2004	1,683	17,894	9,784	61,633	852	91,846

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For the year ended 31st December, 2005

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	50 years
Factory premises	5%
Furniture, fixtures and office equipment	15-20%
Plant, machinery and moulds	10-20%
Motor vehicles	25-30%

The Group has not obtained Certificate for Housing Ownership in respect of the Group's factory premises with an aggregate net book value of approximately HK$17,137,000 (2004: HK$17,894,000) at 31st December, 2005.

The carrying value of plant and machinery includes an amount of approximately HK$297,000 (2004: HK$412,000) in respect of assets held under a finance lease.

16. PREPAID LEASE PAYMENTS

	2005	2004
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in Hong Kong	**61**	655
Medium-term leasehold land in PRC	**374**	442
	435	1,097
Analysed for reporting purposes as:		
Current asset	**69**	84
Non-current asset	**366**	1,013
	435	1,097

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2004	4,000
Revaluation surplus	300
At 31st December, 2004 and 1st January, 2005	4,300
Increase in fair value recognised in the income statement	4,040
At 31st December, 2005	8,340

The fair value of the Group's investment properties at 31st December, 2005 have been arrived at on the basis of a valuation carried out on that date by BMI Appraisals Limited, independent qualified professional valuers not connected with the Group. BMI Appraisals Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

17. INVESTMENT PROPERTIES *(Continued)*

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties. As at 31st December, 2005, the carrying amount of such property interests amounted to HK$8,340,000 (31st December, 2004: HK$4,300,000).

All of the Group's investment properties are situated in Hong Kong and are held under medium-term leases.

18. GOODWILL

	HK$'000
COST	
At 1st January, 2004, 31st December, 2004 and 1st January, 2005	1,070
Elimination of accumulated amortisation upon the application of HKFRS 3 (Note 2A)	(749)
Arising on acquisition of a subsidiary (Note 33)	5,321
At 31st December, 2005	5,642
IMPAIRMENT	
Impairment loss recongised for the year and balance at 31st December, 2005	1,760
AMORTISATION	
At 1st January, 2004	642
Charge for the year	107
At 31st December, 2004 and 1st January, 2005	749
Elimination of accumulated amortisation upon the application of HKFRS 3 (Note 2A)	(749)
At 31st December, 2005	–
CARRYING VALUES	
At 31st December, 2005	3,882
At 31st December, 2004	321

Particulars regarding impairment testing on goodwill are disclosed in note 19.

Until 31st December, 2004, goodwill had been amortised over its estimated useful life for 10 years.

19. IMPAIRMENT TESTING ON GOODWILL

As explained in Note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 18 have been allocated to three individual cash generating units ("CGUs"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31st December, 2005 allocated to these units are as follows:

	Goodwill
	HK$'000
Packaging products segment	
– Perfectech Paper Products Company Limited ("Paper")	321
Toys Products Segment	
– Perfectech International Manufacturing Limited	
• Toys Sub-segment ("Toy")	1,927
(including Beyond Growth International Limited, Dream Creation Limited, Golden Enterprise Holding Limited and Yu-Me (H.K.) Limited)	
• Moulds Sub-segment ("Moulds")	1,634
(Shouji Tooling Factory Limited)	
	3,882

Paper and moulds

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, assuming at a growth rate of 10% per annum, and a discount rate of 6%. Cash flows beyond the 5-years period are extrapolated using a steady 5% growth rate, based on management estimation. Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

Toys

The recoverable amount of Toys has been determined based on a value on use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 10 year period, and discount rate of 6%. Cash flow projections during the budget period for the CGU is based on expected gross margins and expected expenditure during the budget period. Since a shortfall of HK$1,760,000 is expected from the calculation, impairment loss is recognised in profit and loss for the year.

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For the year ended 31st December, 2005

20. INVENTORIES

	2005	2004
	HK$'000	*HK$'000*
Raw materials	**56,279**	68,946
Work in progress	**4,100**	5,254
Finished goods	**33,106**	25,220
	93,485	99,420

21. TRADE AND OTHER RECEIVABLES

	2005	2004
	HK$'000	*HK$'000*
Trade receivables	**89,387**	92,771
Less: impairment loss on trade receivables	**(10,924)**	(10,606)
	78,463	82,165
Prepayment and other receivables	**3,787**	8,735
	82,250	90,900

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 the balance sheet date:

	2005	2004
	HK$'000	*HK$'000*
0 – 60 days	**48,281**	47,425
61 – 90 days	**13,147**	12,317
91 – 120 days	**10,114**	9,936
Over 120 days	**6,921**	12,487
	78,463	82,165

The fair value of the Group's trade and other receivables at 31st December, 2005 approximate to the corresponding carrying amount.

22. OTHER FINANCIAL ASSETS

Amount due from a minority shareholder of a subsidiary

The amount is non-interest bearing, unsecured and repayable on demand. The fair value of the balance at 31st December, 2005 approximate its corresponding carrying amounts.

Bank balances and cash

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 1.75% to 3.85% (2004: 1.55% to 1.75%) with an original maturity of three months or less. The fair value of these assets at 31st December, 2005 approximates to the corresponding carrying amounts.

23. INVESTMENT IN BONDS

Investment in bonds represents debt element of the unlisted bonds. The bonds are redeemable on 31st March, 2006 and carry interest at 7.5% per annum on the outstanding amount of principal of the bond and the interest is payable monthly by the issuer. The conversion right of the bond was waived in March 2005.

24. INVESTMENTS HELD-FOR-TRADING

Held-for-trading investments as at 31st December, 2005 represent equity securities listed in Hong Kong. The fair values of the held-for-trading investments are determined based on the quoted market bid prices available on the relevant exchanges.

Notes to the Financial Statements

For the year ended 31st December, 2005

25. INVESTMENTS IN SECURITIES

Investment securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, investment securities were reclassified to appropriate categories under HKAS 39 (Note 2 for details).

	Trading securities	**Other securities**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Equity securities:			
Listed in Hong Kong	10,136	–	10,136
Debt securities:			
Unlisted	–	2,239	2,239
Total:			
Listed in Hong Kong	10,136	–	10,136
Unlisted	–	2,239	2,239
	10,136	2,239	12,375
Market value of listed securities	10,136	N/A	10,136
Carrying amount analysed for reporting purposes as:			
Non-current	–	–	–
Current	10,136	2,239	12,375
	10,136	2,239	12,375

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2005
	HK$'000
Forward contracts of listed equity securities	350

At 31st December, 2005, the major terms of the listed equity forward contracts are as follows:

Notional amount	**Underlying securities**	**Maturity**	**Forward Price**
HK$3,284,400	Huaneng Power Int'l Inc – H Shares	12th April, 2006	HK$5.36
HK$7,650,000	Hang Lung Properties Ltd	15th August, 2006	HK$11.54
HK$2,956,800	China Telecom Corp Ltd	17th August, 2006	HK$2.83
HK$2,141,400	Petrochina Co Ltd – H Shares	1st September, 2006	HK$5.73
HK$3,012,600	Sun Hung Kai Properties Ltd	5th October, 2006	HK$72.21
HK$3,753,420	Hutchison Whampoa Ltd	11th December, 2006	HK$65.05
HK$5,164,800	Cathay Pacific Airways Ltd	18th December, 2006	HK$12.24

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

27. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure short-term banking facilities granted to the Group and are therefore classified as current assets.

The deposits carry variable interest rate ranging from 1.75% to 3.85% (2004: 1.55% to 3.6%). The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31st December, 2005 approximates to the corresponding carrying amount.

Notes to the Financial Statements
For the year ended 31st December, 2005

28. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	2005 HK$'000	2004 HK$'000
0 – 60 days	**24,725**	20,504
61 – 90 days	**4,367**	7,496
91 – 120 days	**632**	2,591
Over 120 days	**339**	1,843
	30,063	32,434

The fair value of the Group's trade and other payables at 31st December, 2005 approximates to the corresponding carrying amount.

29. BANK BORROWINGS

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

	2005 HK$'000	2004 HK$'000
Within one year	**6,000**	5,195
In the second year	**500**	–
	6,500	5,195
Less: Amount due within one year shown under current liabilities	**(6,000)**	(5,195)
	500	–

The bank loans are variable-rate borrowings which carry interest ranging from 4.44% to 7.75% (2004: 2.39% to 7.00% per annum).

The bank overdrafts are at variable-rate interest rate which carry interest at Hong Kong Prime Rate plus 0.5%.

During the year, the Group obtained new loans in the amount of HK$18,000,000 (2004: HK$6,510,000). The loan of HK$11,500,000 was repaid during the year.

29. BANK BORROWINGS *(Continued)*

The directors consider that the carrying amount of bank borrowings and bank overdraft approximates their fair value.

30. OBLIGATIONS UNDER A FINANCE LEASE

It is the Company's policy to lease certain of its equipment under a finance lease. The average lease term is 3 years. For the year ended 31st December, 2005, the average effective borrowing rate was 2.6% (2004: 2.6%). Interest rates are fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2005	2004	**2005**	2004
	HK$	*HK$*	***HK$***	*HK$*
Amounts payable under a finance lease:				
Within one year	**138**	207	**135**	195
In more than one year but not more than two years	**–**	138	**–**	135
	138	345	**135**	330
Less: Future finance charges	**(3)**	(15)	**–**	–
Present value of lease obligations	**135**	330	**135**	330
Less: Amount due for settlement within 12 months			**(135)**	(195)
Amount due for settlement after 12 months			**–**	135

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The directors consider that the fair value of the Group's obligations under a finance lease at 31st December, 2005 was approximate to its corresponding carrying value.

31. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation	Revaluation of investment properties	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004, as originally stated	2,362	–	(624)	1,738
Effect of changes in accounting policies	–	(303)	–	(303)
At 1st January, 2004, as restated	2,362	(303)	(624)	1,435
Charge (credit) to income for the year	1,581	53	(1,666)	(32)
At 31st December, 2004 and 1st January, 2005	3,943	(250)	(2,290)	1,403
Charge (credit) to income for the year	9	707	(159)	557
At 31st December, 2005	3,952	457	(2,449)	1,960

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005	2004
	HK$'000	*HK$'000*
Deferred tax liabilities	**3,022**	2,441
Deferred tax assets	**(1,062)**	(1,038)
	1,960	1,403

At the balance sheet date, the Group has unused tax losses of approximately HK$27,079,000 (2004: HK$29,463,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$13,994,000 (2004: HK$13,086,000) of such losses. No deferred tax has been recognised in respect of the remaining HK$13,085,000 (2004: HK$16,377,000) due to the unpredictability of future profit streams.

32. SHARE CAPITAL

	Authorised		Issued and fully paid	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
At beginning of the year	**700,000**	70,000	**30,640**	28,170
Issue of new shares *(note 1)*	**–**	–	**–**	2,100
Exercise of share options *(note 2)*	**–**	–	**490**	370
Share repurchased and cancelled *(note 3)*	**–**	–	**(76)**	–
At end of the year	**700,000**	70,000	**31,054**	30,640

note 1: During the year ended 31st December, 2004, the Company issued and allotted 21,000,000 shares of HK$0.10 each for cash at the placement price of HK$0.68 per share pursuant to the Placement Agreement dated 5th January, 2004.

note 2: During the year, 4,900,000 shares in the Company of HK$0.10 each were issued upon the exercise of 4,900,000 share options at subscription prices of HK$0.608 per share.

In 2004, 3,700,00 shares in the Company of the HK$0.10 each were issued upon the exercise of 3,700,000 share options at subscription price of HK$0.638 per share.

note 3: During the year, the Company repurchased its own shares through the Stock Exchange as follows:

	No. of shares of HK$0.10 each	**Price per share**		**Aggregate consideration paid**
		Highest	**Lowest**	
		HK$	*HK$*	*HK$*
Month of repurchase				
November 2005	322,000	0.59	0.56	187,804
December 2005	440,000	0.58	0.55	249,202
	762,000			437,006

The new shares rank pari passu with the then existing shares in all respects.

33. ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

On 10th June, 2005, the Group acquired an additional 41% equity interest in Perfectech International Manufacturing Limited ("PIML"), which has various subsidiaries, at a consideration of HK$17,083,000. The acquisition was accounted for using the purchase method of accounting. The amount of goodwill arising from the acquisition was approximately HK$5,321,000.

Upon the completion of the above acquisition, the Group increased its equity interest in PIML from 59% to 100%. Since the date of acquisition of addition interest, PIML had contributed a further profit of approximately HK$2,763,000 to the Group's profit attributable to the equity holders of the parent.

34. PLEDGE OF ASSETS

The following assets were pledged to secure the margin loan facilities granted to the Group:

(i) Investment held-for-trading with a carrying value of approximately HK$2,915,000 (2004: investment in securities with a carrying value of approximately HK$1,527,000) ; and

(ii) Bank balances and cash of approximately HK$8,724,000 (2004: HK$21,264,000).

The margin loan facilities utilised by the Group at the balance sheet date amounted to approximately HK$1,329,000 at interest rate of Hong Kong Prime Rate plus 1%, which was included in other payables.

35. OPERATING LEASES

The Group as lessee

	2005	2004
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year		
Rented premises	**10,713**	7,918
Plant and machinery	**–**	162
	10,713	8,080

35. OPERATING LEASES *(Continued)*

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**4,939**	4,971
In the second to fifth years inclusive	**7,207**	8,537
Over five years	**33,198**	34,461
	45,344	47,969

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for a term from 2 to 38 years.

The Group as lessor

Property rental income earned from investment properties of the Group during the year was approximately HK$378,000 (2004: HK$378,000), less negligible outgoings.

At 31st December, 2005, the Group had contracted with tenants for future minimum lease receipts, expiring within one year, amounting to approximately Nil (2004: HK$378,000).

36. CAPITAL COMMITMENTS

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**34**	1,407

37. OTHER COMMITMENTS

At 31st December, 2005, the Group carried outstanding forward contracts which entailed a commitment for purchase of equity shares of notional amount of approximately HK$27,963,000 (2004: HK$64,300,000) as disclosed in note 26.

In the opinion of the directors, the commitments will be settled monthly with an amount ranging from approximately HK$3 million to HK$5 million. All acquired listed securities are for trading purposes and will be disposed shortly and the proceeds of which will mainly be 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.

38. CONTINGENT LIABILITY

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 has 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 interest and costs. The directors of the Company take the view that the amount of their claims against the Defendants well exceed the Defendants' claims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

39. SHARE-BASED PAYMENT TRANSACTIONS

The share option scheme (the "Scheme") was adopted 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.

39. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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 8,000,000, representing approximately 2.6% 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. the 5th business day following the offer date provided that no such offer shall be opened for acceptance after the tenth anniversary of the adoption date or after the Scheme has been terminated. Option 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 option 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 year from a director and employees for taking up the options granted during the year is HK$2,979,000 (2004: HK$2,361,000).

All options were vested on the date of grant.

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.

39. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The followings table discloses details of the Company's share options held by employees and movements in such holdings during the year:

	Option type	At 1.1.2004	Exercised during the year	At 31.12.2004	Granted during the year	Exercised during the year	At 31.12.2005
		Number of share options					
Directors	C	–	–	–	6,000,000	–	6,000,000
Employees	B	3,700,000	(3,700,000)	–	–	–	–
	C	–	–	–	4,900,000	(4,900,000)	–
		3,700,000	(3,700,000)	–	4,900,000	(4,900,000)	–
Others	A	1,000,000	–	1,000,000	–	–	1,000,000
	C	–	–	–	1,000,000	–	1,000,000
		1,000,000	–	1,000,000	1,000,000	–	2,000,000
Total		4,700,000	(3,700,000)	1,000,000	11,900,000	(4,900,000)	8,000,000

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price *HK$*
A	5th June, 2002	5th July, 2002 – 17th May, 2012	0.664
B	22nd July, 2003	22nd August, 2003 – 31st December, 2011	0.638
C	2nd February, 2005	2nd May, 2005 – 31st December, 2014	0.608

39. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The closing prices of the Company's shares on 5th June, 2002, 22nd July, 2003 and 22nd February, 2005, the dates of grant of the options, were HK$0.66, HK$0.63 and HK$0.60 respectively.

Share options were exercised on various date from 13th June, 2005 to 18th July, 2005. The weighted average closing prices of the Company's shares on the dates on which the share options exercised was HK$0.618. In 2004, share options were exercised on various dates on 20th February, 2004 to 2nd April, 2004. The weighted average closing prices of the Company's share immediately before the dates on which the share options were exercised during the period ranged from HK$0.82 to HK$0.99.

During the year ended 31st December, 2005, options were granted on 2nd February, 2005. The estimated fair values of the options granted on those dates are HK$0.1258.

The fair values were calculated using the Binomial Option pricing model. The inputs into the model were as follows:

Exercise price	HK$0.608
Expected volatility	37.82%
Expected life	5 years
Risk-free rate	2.811%
Expected dividend yield	8.33%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 260 days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK$1,497,000 for the year ended 31st December, 2005 (2004: Nil) in relation to share options granted by the Company.

40. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme are required to switch to the MPF Scheme and all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rate of 5% the employee's basic salary.

Employees of the Group in the PRC are members of the state-sponsored pension operated by the PRC Government. The Group are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in future years, was approximately HK$5,000 (2004: HK$10,000).

The total cost charged to income of approximately HK$687,000 (2004: HK$795,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

41. POST BALANCE SHEET EVENT

Subsequent to year end, the Company has repurchased 2,372,000 shares of its own shares through the Stock Exchange as follows:

Month of purchase	No. of shares of HK$ 0.10 cash	Price per share Highest HK$	Lowest HK$	Aggregate Consideration paid HK$'000
January 2006	350,000	0.54	0.53	189
February 2006	430,000	0.53	0.51	227
March 2006	1,592,000	0.53	0.48	806
	2,372,000			1,222

42. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following significant transactions with related parties who are not members of the Group:

	2005	2004
	HK$'000	*HK$'000*
Rental expenses paid to:		
Nice Step Investment Limited (Note a)	**999**	860
Mr. Poon Siu Chung	**168**	168
Printing fees paid to Run All Limited (Note b)	**–**	128

Notes:

(a) Mr. Leung Ying Wai, Charles, a substantial shareholder and director of the Company, has beneficial interest in Nice Step Investment Limited.

(b) Mr. Ng Siu Yu, Larry, an independent non-executive director of the Company, has beneficial interest in Run All Limited.

Notes to the Financial Statements

For the year ended 31st December, 2005

42. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
	HK$'000	*HK$'000*
Short-term benefits	**6,918**	6,256
Post-employment benefits	**120**	118
Share-based payments	**969**	–
	8,007	6,374

The remuneration of directors and key executives is determined by the Board and reviewed by the remuneration committee having regard to the performance of individuals and market trends.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/registered capital held by the Company		Paid up issued/ registered ordinary share capital	Principal activities
		Directly	Indirectly		
Benefit International Packing Materials Limited	Hong Kong	–	100%	HK$10,000	Trading of PVC films
Benefit Packing Materials Limited	Hong Kong	–	75%	HK$1,000,000	Trading of PVC films
Beyond Growth International Limited	Hong Kong	–	100%	HK$100,000	Manufacture and sales of toys
Dream Creation Limited	Hong Kong	–	100%	HK$2	Investment holding and distribution of toys
Golden Enterprise Holdings Limited	Hong Kong	–	100%	HK$2	Distribution of toys
珠海市多發塑膠制品有限公司	The PRC	–	100%	RMB530,600	Trading of novelties and festival decorations products
iTech Limited	Hong Kong	–	100%	HK$2	Investment holding
Leader Stationery & Gifs Manufacturing Company Limited	Hong Kong	–	80%	HK$1,000,000	Manufacturing of stationery products
Link Faith Company Limited	Hong Kong	–	100%	HK$100,000	Securities investments

Notes to the Financial Statements

For the year ended 31st December, 2005

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/registered capital held by the Company Directly	Indirectly	Paid up issued/ registered ordinary share capital	Principal activities
Onward Packing Manufacturer Limited	Hong Kong	–	100%	HK$320,000	Manufacture of novelties, festival decorations and packaging products
Perfectech Colour Centre Limited	Hong Kong	–	100%	HK$1,000,000	Dye stuff manufacturing
Perfectech Enterprises (B.V.I.) Limited	British Virgin Islands ("BVI")	–	100%	US$1	Investment holding
Perfectech International (B.V.I.) Limited	BVI	100%	–	US$50	Investment holding
Perfectech International Limited	Hong Kong	–	100%	HK$200 HK$80,000 (non-voting deferred shares)	Investment holding
Perfectech International Manufacturing Limited	BVI	–	100%	US$2,457,000	Investment holding
Perfectech International Packaging Products Company Limited	Hong Kong	–	100%	HK$450,000	Manufacture of PVC blister and box
Perfectech International Trading Limited	Hong Kong	–	100%	HK$2	Trading of novelties, festival decorations and packaging products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/registered capital held by the Company Directly	Indirectly	Paid up issued/ registered ordinary share capital	Principal activities
Perfectech Paper Products Company Limited	Hong Kong	–	99%	HK$1,000,000	Manufacture of paper products
Perfectech Plastics Limited	Hong Kong	–	100%	HK$1,000,000	Trading of plastic materials
Perfectech Printing Company Limited	Hong Kong	–	90%	HK$1,000,000	Printing
Shouji Tooling Factory Limited	Hong Kong	–	76.2%	HK$1,000	Manufacture and sales of moulds
Sunflower Garland Manufactory Limited	Hong Kong	–	100%	HK$2 HK$160,000 (non-voting deferred shares)	Property investment
Yu-Me (H.K.) Limited	Hong Kong	–	100%	HK$2	Provision of management services

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

珠海市多發塑膠制品有限公司 is a wholly foreign owned subsidiary registered under PRC law and all principal activities of subsidiaries are carried out in Hong Kong and the PRC.

None of the subsidiaries had any debt securities outstanding at the end of the year.

Notes to the Financial Statements

For the year ended 31st December, 2005

44. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date includes:

	2005	2004
	HK$'000	HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	32,061	32,061
Deferred tax assets	424	117
	32,485	32,178
CURRENT ASSETS		
Amounts due from subsidiaries	132,788	146,076
Prepayment and other receivables	243	227
Band balance	70	6
	133,101	146,309
CURRENT LIABILITY		
Accrued charges	100	570
NET CURRENT ASSETS	133,001	145,739
	165,486	177,917
CAPITAL AND RESERVES		
Share capital	31,054	30,640
Reserves	134,432	147,277
	165,486	177,917

Loss of the Company for the year ended 31st December, 2005 amounted to HK$1.1 million (2004: HK$0.1 million).

Financial Summary

RESULTS

	Year ended 31st December,				
	2001	2002	2003	2004	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(note)	*(note)*	*(note)*	(restated)	
Revenue	336,287	317,256	315,357	509,820	**515,875**
Profit before tax	32,439	33,045	19,901	27,180	**14,465**
Income tax expenses	(3,249)	(3,136)	(1,903)	(1,884)	**(2,982)**
Profit for the year	29,190	29,909	17,998	25,296	**11,483**
Attributable to:					
Equity holders of the parent	28,767	29,787	18,175	22,537	**10,701**
Minority interests	423	122	(177)	2,759	**782**
Profit for the year	29,190	29,909	17,998	25,296	**11,483**

ASSETS AND LIABILITIES

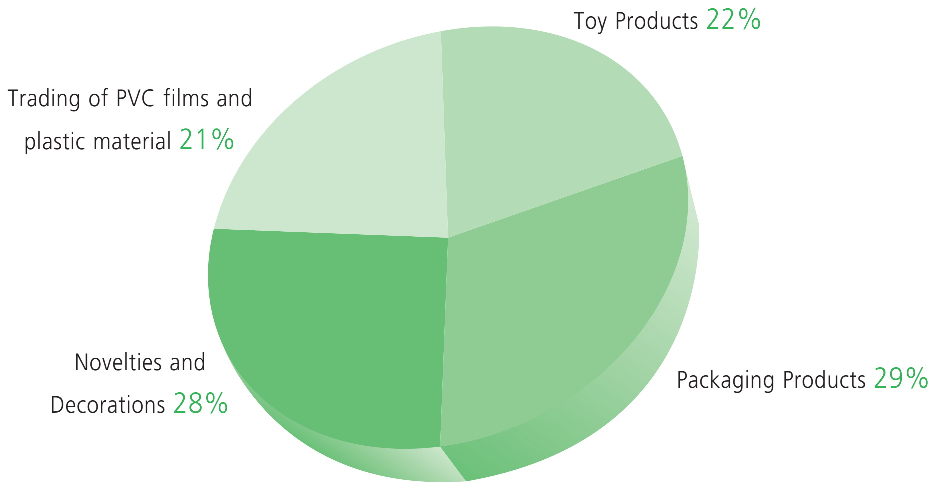
	As at 31st December,				
	2001	2002	2003	2004	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(note)	*(note)*	*(note)*	(as restated)	
Total assets	240,971	254,827	333,552	341,259	**327,718**
Total liabilities	(18,410)	(26,901)	(83,104)	(62,802)	**(60,250)**
Total equity	222,561	227,926	250,448	278,457	**267,468**
Minority interests	2,584	2,248	14,711	17,470	**6,073**
Equity attributable to equity holders of the parent	219,977	225,678	235,737	260,987	**261,395**
Total equity	222,561	227,926	250,448	278,457	**267,468**

Note:

The summary of the results, assets and liabilities of the Group for three years ended 31st December, 2003 have not been restated upon the adoption of HK(SIC) Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" as the Directors are of the opinion that the restatement would involve cost not in proportion to the benefit of the Group.

Financial Summary

A. REVENUE BY ACTIVITY



B. ANALYSIS OF TURNOVER AND PROFIT FOR THE YEAR