

Interim Report 2008



Perfectech International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 765)

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

Independent Non-executive Directors:

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

COMPANY SECRETARY

Ms. Pang Siu Yin

AUDITORS

HLM & Co.
Certified Public Accountants
Hong Kong

LEGAL ADVISER

Cheung, Tong and Rosa

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7/F, E Tat Factory Building,
4 Heung Yip Road,
Wong Chuk Hang, Aberdeen,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank (Hong Kong)
Limited
Hang Seng Bank Limited
Chong Hing Bank Limited

HONG KONG SHARE AND WARRANT REGISTRARS AND TRANSFER OFFICE

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

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2008

		(Unaudited)	
		For the six months ended 30 June	
	Notes	2008 HK\$'000	2007 HK\$'000
Revenue	2 & 3	199,363	199,917
Cost of sales		<u>(168,731)</u>	<u>(163,202)</u>
Gross profit		30,632	36,715
Other income	4	2,799	11,275
Distribution costs		(8,031)	(8,830)
Administrative expenses		(19,436)	(19,572)
Impairment loss on goodwill		–	(175)
Other expenses	5	(64,132)	(997)
Finance costs		<u>(348)</u>	<u>(109)</u>
(Loss) profit before tax	6	(58,516)	18,307
Income tax expenses	7	<u>(308)</u>	<u>(2,386)</u>
(Loss) profit for the period		<u><u>(58,824)</u></u>	<u><u>15,921</u></u>
Attributable to:			
Equity holders of the Company		(58,796)	15,070
Minority interests		<u>(28)</u>	<u>851</u>
(Loss) profit for the period		<u><u>(58,824)</u></u>	<u><u>15,921</u></u>
Dividends	8	<u><u>10,573</u></u>	<u><u>16,608</u></u>
(Loss) earnings per share	9		
Basic		<u><u>(19.46)cents</u></u>	<u><u>4.98 cents</u></u>
Diluted		<u><u>(19.37)cents</u></u>	<u><u>4.93 cents</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2008 AND 31 DECEMBER 2007

		(Unaudited) 30 June 2008 <i>HK\$'000</i>	(Audited) 31 December 2007 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	10	59,413	63,008
Prepaid lease payments		172	209
Goodwill		3,561	3,561
Deferred tax assets		1,044	1,103
		<u>64,190</u>	<u>67,881</u>
CURRENT ASSETS			
Inventories		138,871	70,778
Trade and other receivables	11	96,756	98,566
Prepaid lease payments		75	75
Taxation recoverable		1,315	1,672
Investments held-for-trading		53,622	19,392
Derivative financial instruments		–	3,296
Pledged bank deposits		19,864	74,209
Bank balances and cash		26,371	53,400
		<u>336,874</u>	<u>321,388</u>
CURRENT LIABILITIES			
Trade and other payables	12	73,894	51,810
Derivative financial instruments		44,123	32,484
Tax liabilities		3,556	3,123
Bank borrowings – due within one year	13	31,796	–
Bank overdraft		1,905	–
		<u>155,274</u>	<u>87,417</u>
NET CURRENT ASSETS		<u>181,600</u>	<u>233,971</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>245,790</u>	<u>301,852</u>
NON CURRENT LIABILITIES			
Deferred tax liabilities		1,721	2,262
Bank borrowings – due after one year	13	11,959	–
		<u>13,680</u>	<u>2,262</u>
NET ASSETS		<u>232,110</u>	<u>299,590</u>
CAPITAL AND RESERVES			
Share capital	14	30,299	29,975
Reserves		193,474	261,250
Equity attributable to equity holders of the Company		223,773	291,225
Minority interests		8,337	8,365
TOTAL EQUITY		<u>232,110</u>	<u>299,590</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2008

(Unaudited)

	Share capital	Share premium	Capital redemption reserve	Translation reserve	Share option reserve	Retained profits	Attributable to equity holders of the Company	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	29,975	78,944	3,884	55	4,074	174,293	291,225	8,365	299,590
Dividend	-	-	-	-	-	(10,573)	(10,573)	-	(10,573)
Shares issued at premium	390	1,920	-	-	-	-	2,310	-	2,310
Transfer from share option reserve	-	510	-	-	(510)	-	-	-	-
Repurchase and cancellation of shares	(66)	-	66	-	-	(427)	(427)	-	(427)
Exchange difference on translation of overseas operations	-	-	-	34	-	-	34	-	34
Net loss for the period	-	-	-	-	-	(58,796)	(58,796)	(28)	(58,824)
At 30 June 2008	<u>30,299</u>	<u>81,374</u>	<u>3,950</u>	<u>89</u>	<u>3,564</u>	<u>104,497</u>	<u>223,773</u>	<u>8,337</u>	<u>232,110</u>
At 1 January 2007	30,316	77,723	3,343	45	2,204	171,007	284,638	7,893	292,531
Dividend	-	-	-	-	-	(16,608)	(16,608)	-	(16,608)
Shares issued at premium	100	508	-	-	-	-	608	-	608
Transfer from share option reserve	-	126	-	-	(126)	-	-	-	-
Repurchase and cancellation of shares	(170)	-	170	-	-	(1,403)	(1,403)	-	(1,403)
Exchange difference on translation of overseas operations	-	-	-	3	-	-	3	-	3
Net profit for the period	-	-	-	-	-	15,070	15,070	851	15,921
At 30 June 2007	<u>30,246</u>	<u>78,357</u>	<u>3,513</u>	<u>48</u>	<u>2,078</u>	<u>168,066</u>	<u>282,308</u>	<u>8,744</u>	<u>291,052</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2008

	(Unaudited)	
	For the six months ended 30 June	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(49,941)	11,506
NET CASH USED IN INVESTING ACTIVITIES	(14,079)	(43,748)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>35,065</u>	<u>(8,298)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(28,955)	(40,540)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	53,400	63,776
Effect of foreign exchange rate changes	<u>21</u>	<u>3</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u><u>24,466</u></u>	<u><u>23,239</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	26,371	25,506
Bank overdrafts	<u>(1,905)</u>	<u>(2,267)</u>
	<u><u>24,466</u></u>	<u><u>23,239</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

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

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007 except as described below:

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2008 as follows:

HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – INT 12	Services Concession Arrangements
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of these new HKFRSs has had no significant impact on the Group’s result and financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

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

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 13	Customer Loyalty Programmes ²

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 July 2008.

The Directors of the Company anticipate that the application of the standards, revisions and interpretations will have no significant impact on the results and the financial position of the Group.

2 BUSINESS SEGMENTS

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

For the six months ended 30 June 2008 (Unaudited)

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE						
External sales	27,345	67,300	38,189	66,529	-	199,363
Inter-segment sales	2	9,365	1,515	786	(11,668)	-
Total revenue	27,347	76,665	39,704	67,315	(11,668)	199,363
RESULT						
Segment result	2,182	3,333	(309)	105	(452)	4,859
Loss from investments						(63,193)
Unallocated corporate income						166
Finance costs						(348)
Loss before tax						(58,516)
Income tax expenses						(308)
Loss for the period						(58,824)

Inter-segment sales are charged at prevailing market rates.

BALANCE SHEET

As at 30 June 2008 (Unaudited)

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	105,599	97,458	44,028	82,128	329,213
Unallocated corporate assets					71,851
Consolidated total assets					401,064
LIABILITIES					
Segment liabilities	54,060	27,245	2,175	23,996	107,476
Bank borrowings					43,755
Unallocated corporate liabilities					17,723
Consolidated total liabilities					168,954

OTHER INFORMATION*For the six months ended 30 June 2008 (Unaudited)*

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
Capital additions	1,448	768	–	1,888	4,104
Depreciation and amortisation	1,997	2,873	27	2,725	7,622
Release of prepaid lease payments	–	–	–	37	37

For the six months ended 30 June, 2007 (Unaudited)

	Novelties and decorations 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	23,153	59,421	44,814	72,529	–	199,917
Inter-segment sales	11	5,309	2,073	710	(8,103)	–
Total revenue	<u>23,164</u>	<u>64,730</u>	<u>46,887</u>	<u>73,239</u>	<u>(8,103)</u>	<u>199,917</u>
RESULT						
Segment result	<u>1,993</u>	<u>220</u>	<u>836</u>	<u>7,895</u>	<u>(686)</u>	10,258
Income from investments						8,840
Unallocated corporate expenses						(682)
Finance costs						(109)
Profit before tax						18,307
Income tax expenses						(2,386)
Profit for the period						<u>15,921</u>

Inter-segment sales are charged at prevailing market rates.

BALANCE SHEET

As at 31 December 2007 (Audited)

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	74,885	82,207	39,773	93,191	290,056
Unallocated corporate assets					99,213
					<u>389,269</u>
LIABILITIES					
Segment liabilities	27,944	17,777	1,738	25,369	72,828
Unallocated corporate liabilities					16,851
					<u>89,679</u>

OTHER INFORMATION

For the six months ended 30 June 2007 (Unaudited)

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
Capital additions	1,123	2,457	5	2,238	5,823
Depreciation and amortisation	2,183	3,735	38	2,865	8,821
Release of prepaid lease payments	–	–	–	37	37

3 GEOGRAPHICAL SEGMENTS

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

	(Unaudited)	
	For the six months ended 30 June 2008	2007
	HK\$'000	HK\$'000
Sales revenue by geographical market:		
Hong Kong	110,542	109,477
Europe	22,044	19,243
America	32,247	25,488
Asia (other than Hong Kong)	30,492	42,460
Others	4,038	3,249
	<u>199,363</u>	<u>199,917</u>

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

	(Unaudited) 30 June 2008 <i>HK\$'000</i>	(Audited) 31 December 2007 <i>HK\$'000</i>
Hong Kong	207,232	241,550
The People's Republic of China (the "PRC")	193,832	147,719
	<u>401,064</u>	<u>389,269</u>

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

	(Unaudited)	
	For the six months ended 30 June 2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Hong Kong	1,033	88
The PRC	3,071	5,735
	<u>4,104</u>	<u>5,823</u>

4 OTHER INCOME

	(Unaudited)	
	For the six months ended 30 June 2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Rental income	59	62
Interest income	892	1,935
Dividend income from investments held-for-trading	102	127
Gain on disposal of investments held-for-trading	–	5,681
Increase in fair value of derivative financial instruments	–	544
Exchange gain on financial instruments	–	1,692
Others	1,746	1,234
	<u>2,799</u>	<u>11,275</u>

5 OTHER EXPENSES

	(Unaudited)	
	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Loss on disposal of investments held-for-trading	8,746	–
Decrease in fair value of investments held-for-trading	22,401	997
Decrease in fair value of derivative financial instruments	14,935	–
Exchange loss on financial instruments	18,050	–
	<u>64,132</u>	<u>997</u>

6 (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived after charging:

	(Unaudited)	
	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	7,622	8,821
Release of prepaid lease payments	37	37
Loss on disposals of property, plant and equipment	27	532
	<u>7,686</u>	<u>9,390</u>

7 INCOME TAX EXPENSES

	(Unaudited)	
	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Tax charge comprises:		
Hong Kong Profits Tax		
Current year	790	2,126
Deferred taxation	(482)	260
	<u>308</u>	<u>2,386</u>

Hong Kong Profits Tax is stated at 16.5% (2007: 17.5%) of the estimated assessable profits for the period.

8 DIVIDENDS

	(Unaudited)	
	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Final paid:		
3.5 cents per share for 2007 (2007: 5 cents per share for 2006)	<u>10,573</u>	<u>16,608</u>

The Directors have resolved to declare an interim dividend of 0.5 cent (2007: 2.5 cents) per share.

9 (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the net loss for the period of approximately HK\$58,796,000 (2007: profit of HK\$15,070,000) and the following data:

	(Unaudited)	
	For the six months ended 30 June	
	2008	2007
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	302,157,452	302,788,829
Effect of dilutive potential ordinary shares:		
Share options	<u>1,357,851</u>	<u>2,955,255</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u>303,515,303</u>	<u>305,744,084</u>

10 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$4,104,000 (2007: HK\$5,823,000).

11 TRADE AND OTHER RECEIVABLES

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

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

	(Unaudited) 30 June 2008 <i>HK\$'000</i>	(Audited) 31 December 2007 <i>HK\$'000</i>
0-60 days	70,722	59,457
61-90 days	11,757	12,894
91-120 days	3,756	7,604
Over 120 days	6,667	15,571
	<u>92,902</u>	<u>95,526</u>

12 TRADE AND OTHER PAYABLES

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

	(Unaudited) 30 June 2008 <i>HK\$'000</i>	(Audited) 31 December 2007 <i>HK\$'000</i>
0-60 days	41,905	27,679
61-90 days	1,835	3,175
91-120 days	5,157	582
Over 120 days	1,811	2,193
	<u>50,708</u>	<u>33,629</u>

13 BANK BORROWINGS

	(Unaudited) 30 June 2008 <i>HK\$'000</i>	(Audited) 31 December 2007 <i>HK\$'000</i>
Bank loans	15,080	–
Trust receipt loans	28,675	–
	<u>43,755</u>	<u>–</u>

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

	(Unaudited) 30 June 2008 HK\$'000	(Audited) 31 December 2007 HK\$'000
Within one year	31,796	–
In the second year to the fifth year	<u>11,959</u>	<u>–</u>
	43,755	–
Less: Amount due within one year shown under current liabilities	<u>(31,796)</u>	<u>–</u>
	<u><u>11,959</u></u>	<u><u>–</u></u>

During the period, the Group obtained a new bank loan of US\$2,000,000 (approximately HK\$15,600,000). The loan bears interest at market rate and is repayable in instalments over a period of 5 years. The proceeds are used to finance the working capital of the Group. During the period, the loan of approximately HK\$520,000 was repaid.

14 SHARE CAPITAL

	(Unaudited)			
	Authorised		Issued and fully paid	
	For the six months ended 30 June			
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ordinary shares of HK\$0.1 each				
At beginning of the period	70,000	70,000	29,975	30,316
Issue of shares on exercise of options	–	–	390	100
Share repurchased and cancelled	<u>–</u>	<u>–</u>	<u>(66)</u>	<u>(170)</u>
At end of the period	<u><u>70,000</u></u>	<u><u>70,000</u></u>	<u><u>30,299</u></u>	<u><u>30,246</u></u>

15 COMMITMENTS

(a) Capital commitments for property, plant and equipment

	(Unaudited) 30 June 2008 HK\$'000	(Audited) 31 December 2007 HK\$'000
Contracted but not provided for	128	–
Authorised but not contracted for	364	2,109
	<u>492</u>	<u>2,109</u>

(b) Operating lease commitments

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

	(Unaudited) 30 June 2008 HK\$'000	(Audited) 31 December 2007 HK\$'000
Within one year	7,121	6,354
Over 1 year but within 5 years	12,841	10,289
Over five years	34,370	34,300
	<u>54,332</u>	<u>50,943</u>

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

16 OTHER COMMITMENTS

At 30 June 2008, the Group carried outstanding forward contracts which entitled commitments for purchase of listed securities of approximately HK\$82,313,000 (31 December 2007: HK\$213,670,000). In the opinion of the directors, the commitments will be settled monthly with an amount ranging from HK\$18 million to HK\$21 million. All acquired listed securities are held for trading purposes and will be disposed shortly and the proceeds of which will be mainly used to finance the purchase of listed securities being committed in accordance with the forward contracts. Hence, the commitments are not expected to have a material impact on the overall cash flow of the Group.

17 CONTINGENT LIABILITIES

(a) Contingent liability in respect of legal claim

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

(b) Financial guarantees issued

As at the balance sheet date, the Company has issued the following guarantees:

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

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

As at the balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees as the probability of default payment for the loans of approximately HK\$45,660,000 (31 December 2007: nil) drawn down by the subsidiaries is remote.

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

18 RELATED PARTY TRANSACTIONS

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

	(Unaudited)	
	For the six months ended 30 June	
	2008	2007
	HK\$’000	HK\$’000
Rental expenses paid to:		
Nice Step Investment Limited (<i>Note</i>)	–	562
Mr. Poon Siu Chung	<u>120</u>	<u>84</u>

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The directors have resolved to declare an interim dividend of 0.5 cent per share (2007: 2.5 cents per share) for the six months ended 30 June 2008 payable on or about 31 October 2008 to shareholders whose names appear on the register of members of the Company (the “Register of Members”) on 24 October 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 23 October 2008 to 24 October 2008, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed interim dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong Share Registrar, Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 22 October 2008.

BUSINESS REVIEW

During the period under review, the total revenue of the Group as a whole remained quite stable at approximately HK\$199,363,000 (2007: HK\$199,917,000), representing a very slight decrease of not more than 1%, and recorded a loss attributable to equity shareholders of approximately HK\$58,796,000 (2007: profit of HK\$15,070,000), representing a substantial deterioration of the Group’s performance.

For the first half of 2008, the contribution from the core business of the Group was approximately HK\$4,859,000 (2007: HK\$10,258,000), representing a drop of about 53%. Detailed performance of each segment of the core business will be discussed below.

Included in the loss for the period was the loss from investment of approximately HK\$63,193,000 (2007: profit of HK\$8,840,000), which consisted of, among other things, the loss on disposal of investments held-for-trading of approximately HK\$8,746,000, the decrease in fair value of investments held-for trading of approximately of HK\$22,401,000 and the decrease in fair value of derivative financial instruments of approximately HK\$14,935,000.

As set out in the profit warning announcement of the Company dated 22 February 2008 (the “Announcement”), the Group’s results for the financial year ending 31 December 2008 is expected to be adversely affected as a result of the loss arising from certain structured product contracts entered into by the Group with a bank to minimise its potential foreign exchange risk exposure to appreciation of Renminbi. The realized loss of approximately US\$2,353,000 (equivalent to HK\$18,353,000) has been included in “Other Expenses” as “Exchange loss on financial instruments”, and an amount of approximately US\$2,800,000 (equivalent to HK\$21,840,000) has been included in “Other Expenses” as “Decrease in fair value of derivative financial instruments”, making a total loss of approximately US\$5,153,000 (equivalent to HK\$40,193,000).

Novelties and decorations

The revenue of the novelties and decorations segment increased by about 18% amounting to approximately HK\$27,345,000 (2007: HK\$23,153,000), while the contribution of the segment stood at approximately HK\$2,182,000 (2007: HK\$1,993,000), representing a growth of about 9%. The revenue of the segment stopped the trend of dropping in the first half of the year as a result of raising selling price to cover the ever-increasing costs of production. Since traditionally the first half of the year is a low season for the segment, it is optimistic that stable and reasonable contribution from the segment for the whole year will be achieved.

Packaging products

The revenue in the packaging segment increased by about 13% amounting to HK\$67,300,000 (2007: HK\$59,421,000), and recorded a contribution of approximately HK\$3,333,000 (2007: HK\$220,000), representing a growth of more than 14 times. After a series of effort made in the repositioning of the product mix, the segment resumed to make contribution to the Group. However, in view of the keen competition in certain business areas of the segment, such as printing business, it is uncertain that the performance of the segment will be improved in the aforesaid way for the whole year's results.

Trading activities

The revenue of the segment decreased by about 15% to approximately HK\$38,189,000 (2007: HK\$44,814,000), and the results of the segment showed a loss of approximately HK\$309,000 (2007: profit of HK\$836,000). The Group always adopts a prudent policy in soliciting business with customers for the segment. Hence, it is anticipated that contribution from the segment will not be significant. However, the existence of the segment is strategically beneficial to the Group as a whole.

Toy products

The revenue and contribution of the segment stood at approximately HK\$66,529,000 (2007: HK\$72,529,000) and HK\$105,000 (2007: HK\$7,895,000) respectively, representing a drop of about 8% and 99% respectively. Facing with the continuous increase in the costs of production together with the freeze of selling price, the results of the segment dropped substantially in the first half of the year. It is expected that the performance of the segment will be improved as the selling price will be adjusted upward.

Investments

To better utilize the available cash on hand, the Group has invested in the listed securities of Hong Kong and related derivative products, including but not limited to equity linked deposits, together with the financial instruments for hedging foreign exchanges. During the period, the investment loss from aforesaid transactions amounted to approximately HK\$63,193,000 (2007: profit of HK\$8,840,000) as a result of the deterioration of the financial market.

Investments held-for-trading is usually held for short-term purposes for capital gain in the value of the assets held. As at the balance sheet date, the market value of investment in securities was approximately HK\$47,316,000 (31 December 2007: HK\$11,147,000), while the remaining of approximately HK\$6,306,000 (31 December 2007: HK\$8,245,000) was held as equity linked deposits.

As at 30 June 2008, the Group carried outstanding forward contracts which entailed a commitment for purchase of listed securities of notional amount of approximately HK\$82,313,000 (31 December 2007: HK\$213,670,000). The commitment will be settled monthly with an amount ranging from approximately HK\$18 million to HK\$21 million. Usually the securities acquired will be disposed of shortly, and thus the commitment is not expected to have a material adverse impact on cash flow.

Details of the guidelines on investment transactions of the Group is posted on the Company's website, www.perfectech.com.hk.

FUTURE PLAN AND PROSPECT

"For the year 2008, globally, the economic atmosphere becomes uncertain and volatile as impacted by the potential economic recession of the US economy as a result of the subprime mortgage crisis. Locally, the cost of production in the PRC will continually increase as a result of the launch of new labour contract law in the mainland and increase of raw materials prices. Coupled with the appreciation of the currency of Renminbi and the keen competition...", as stated in the Annual Report 2007 of the Company, the Group has really been facing many challenges in the year.

Since the negative effects from the US subprime mortgage crisis gradually appeared and led to the adverse change of atmosphere in the stock market, the market prices of listed securities dropped substantially. Together with the loss incurred for hedging purposes as stated in the Announcement, the Group recorded a significant loss in the first half of 2008.

As the negative impact of the US subprime mortgage crisis continues to affect the global economy and it is uncertain when and whether such effect will end, the global financial market is still cloudy. As a result, the Directors are pessimistic about the full year's results of the Group and uncertain if the performance of the Group for the full year will be improved even though the overall performance of the core business of the Group is stable and reasonably positive.

Liquidity and financial resources

As at 30 June 2008, the long-term bank borrowings of the Group was HK\$11,959,000 (31 December 2007: nil), while the short-term bank borrowings were approximately HK\$31,796,000 (31 December 2007: nil), and none of the Group's plant and machinery (31 December 2007: nil) was held under a finance lease. The gearing ratio of the Group, measured by total bank and other borrowings divided by equity, was approximately 19.55% (31 December 2007: nil).

Finance costs

The Group's finance costs amounted to approximately HK\$348,000 (2007: HK\$109,000).

Pledge of Assets

As at 30 June 2008, the following assets were pledged to secure the margin loan facilities granted to the Group:

- (i) Investments held-for-trading with a carrying value of approximately of HK\$53,622,000 (31 December, 2007: HK\$11,147,000); and
- (ii) Bank balances and cash of approximately HK\$19,864,000 (31 December 2007: HK\$74,209,000).

No margin loan facilities was utilised by the Group as at the balance sheet date. The margin loan facilities charged at interest rate of Hong Kong Prime Rate plus 1%.

Employees and remuneration policies

As at 30 June 2008, the Group employed approximately 4,300 full time employees. The Group remunerates its employees by reference to the prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

Foreign currency exposure

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar. While all the Group's factories are located in the PRC, expenses incurred there are denominated in Renminbi.

As at the balance sheet date, the Group has entered into several financial instruments with its major banks for the hedging of exposure in US Dollars and Renminbi, especially for the gradual and continuous appreciation of the latter since recent years.

SHARE OPTION SCHEME

A share option scheme (the “Scheme”) was adopted pursuant to the Annual General Meeting held on 17 May 2002 and will expire on 16 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.

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

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

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.

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 18,900,000, representing approximately 6.18% of the shares of the Company in issue at that date.

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

	Number of options outstanding at 1/1/2008	Number of options granted during the period	Number of shares issued and exercise of options during the period	Number of options outstanding at 30/6/2008	Date granted	Exercise price per share HK\$	Exercisable Period
Directors							
– Ip Siu On	3,000,000	–	(2,000,000)	1,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
– Tsui Yan Lee, Benjamin	2,000,000	–	(1,000,000)	1,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
– Yip Chi Hung	300,000	–	–	300,000	02-Nov-07	0.850	01-Dec-07 to 31-Dec-16
– Lam Yat Cheong	300,000	–	–	300,000	02-Nov-07	0.850	01-Dec-07 to 31-Dec-16
– Choy Wing Keung, David	300,000	–	–	300,000	02-Nov-07	0.850	01-Dec-07 to 31-Dec-16
Employees	8,000,000	–	(900,000)	7,100,000	24-Mar-06	0.540	24-Apr-06 to 31-Dec-14
	9,500,000	–	–	9,500,000	02-Nov-07	0.850	01-Dec-07 to 31-Dec-16
	<u>23,400,000</u>	<u>–</u>	<u>(3,900,000)</u>	<u>19,500,000</u>			
Others	1,000,000	–	–	1,000,000	05-Jun-02	0.664	05-Jul-02 to 17-May-12
	1,000,000	–	–	1,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
	<u>2,000,000</u>	<u>–</u>	<u>–</u>	<u>2,000,000</u>			
Grand Total	<u>25,400,000</u>	<u>–</u>	<u>(3,900,000)</u>	<u>21,500,000</u>			

The closing price of the Company's shares on 5 June 2002, 2 February 2005, 24 March 2006 and 2 November 2007 the dates of grant of the options, were HK\$0.64, HK\$0.60, HK\$0.52 and HK\$0.85 respectively.

Share options were exercised on 14 January 2008, 28 January 2008 and 24 June 2008, and the closing prices of the Company's shares on those dates were HK\$0.99, HK\$0.89 and HK\$0.61 respectively.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2008, the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) (“SFO”)) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”), were as follows:

(A) Long Positions in shares of the Company

Directors	Capacity	No. of shares held	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner	25,630,000		
	Interest of spouse and controlled corporation	103,621,630	129,251,630 (a)	42.66
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	20.82
Mr. Ip Siu On	Beneficial owner	7,323,600	7,323,600	2.42
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	3,711,000	3,711,000	1.22
Mr. Yip Chi Hung	Interest of controlled corporation	2,200,000	2,200,000 (c)	0.73

Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 25,630,000 shares (“Shares”) of the Company and he was deemed to be interested in 1,864,000 Shares and 101,757,630 Shares which were held by his spouse, Ms. Lau Kwai Ngor and 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 respectively. 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.
- (c) Mr. Yip Chi Hung was deemed to be interested in 2,200,000 Shares which were held through First Canton Investment Limited, a company incorporated in the British Virgin Islands and 100% beneficially owned by Mr. Yip.

(B) Right to acquire shares of the Company

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

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

Directors	Name of associated corporation	Capacity	No. of shares held	Total	% of issued share capital of associated corporation
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner	200		
		Interest of spouse	200	400 (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:

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

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the directors, nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SFO.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section “Directors’ Interests in Shares”, as at 30 June 2008, the register of substantial shareholders’ interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the share capital of the Company as follows:

Long Positions in shares of the Company

Shareholders	Capacity	No. of shares held	Total	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Beneficial owner	1,864,000		
	Interest of spouse and controlled corporation	127,387,630	129,251,630 (g)	42.66
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200	63,097,200 (h)	20.82
Allianz SE	Interest of controlled corporation	60,374,971	60,374,971 (i)	19.93
Dresdner Bank Aktiengesellschaft	Interest of controlled corporation	60,374,971	60,374,971 (i)	19.93
Dresdner VPV NV	Investment Manager	60,374,171	60,374,971 (i)	19.93

Notes:

- (g) Under SFO, Ms. Lau Kwai Ngor was the beneficial owner of 1,864,000 Shares and was deemed to be interested in 127,387,630 Shares of the Company through interests of her spouse, Mr. Poon Siu Chung (Please refer to Note (a) above).
- (h) Under SFO, Ms. Tai Yee Foon was deemed to be interested in 63,097,200 Shares through interests of her spouse, Mr. Leung Ying Wai, Charles (Please refer to Note (b) above).
- (i) Under SFO, Allianz SE and Dresdner Bank Aktiengesellschaft were deemed to be interested in the 60,374,971 shares of the Company held by Dresdner VPV NV.

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

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

	No. of shares of HK\$0.10 each	Price per share		Aggregate
		Highest HK\$	Lowest HK\$	consideration paid HK\$
Month of repurchase				
March 2008	300,000	0.680	–	205,486
April 2008	360,000	0.610	–	221,293
	<u>660,000</u>			<u>426,779</u>

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance

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

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

Code A.2.1

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

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

Model Code for Securities Transactions by Directors

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

After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions during the six months ended 30 June 2008.

Audit Committee

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2008 of the Company now reported on.

Remuneration Committee

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

The Committee comprises Mr. Choy Wing Keung, David, Mr. Lam Yat Cheong, Mr. Yip Chi Hung, who is also the chairman of the Committee, Mr. Poon Siu Chung as an Executive Director, and Mr. Yuen Che Wai, Victor, the Financial Controller of the Company.

The Committee is governed by its terms of reference, which are in line with the Code on Corporate Governance contained in Appendix 14 of the Listing Rules.

DIRECTORS OF THE COMPANY

As at the date of this report, Mr. Poon Siu Chung, Mr. Leung Ying Wai, Charles, Mr. Ip Siu On and Mr. Tsui Yan Lee, Benjamin are the executive directors of the Company, Mr. Yip Chi Hung, Mr. Lam Yat Cheong and Mr. Choy Wing Keung, David are the independent non-executive directors of the Company.

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

Hong Kong, 29 September 2008