

Towards a Prosperous Year
曙光初現

Perfectech

Perfectech International Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2007

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
(retired on 31st May, 2007)

Independent Non-executive Directors:

Mr. Ng Siu Yu, Larry
(retired on 31st May, 2007)

Mr. Lam Yat Cheong

Mr. Yip Chi Hung

Mr. Choy Wing Keung, David
(appointed on 31st May, 2007)

Company Secretary

Ms. Pang Siu Yin

Auditors

HLM & Co.

Legal adviser

Cheung, Tong and Rosa

Registered office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head office and principal place of business

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

Principal bankers

The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank (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 30TH JUNE, 2007

		(Unaudited)	
		For the six months	
		ended 30th June,	
		2007	2006
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	2 & 3	199,917	196,231
Cost of sales		<u>(163,202)</u>	<u>(166,777)</u>
Gross profit		36,715	29,454
Other income	4	11,275	6,317
Distribution costs		(8,830)	(9,357)
Administrative expenses		(19,572)	(20,196)
Impairment loss on goodwill		(175)	–
Other expenses	5	(997)	(1,575)
Finance costs		<u>(109)</u>	<u>(321)</u>
Profit before tax	6	18,307	4,322
Income tax expenses	7	<u>(2,386)</u>	<u>(268)</u>
Profit for the period		<u>15,921</u>	<u>4,054</u>
Attributable to:			
Equity holders of the Company		15,070	3,740
Minority interests		<u>851</u>	<u>314</u>
Profit for the period		<u>15,921</u>	<u>4,054</u>
Dividends	8	<u>16,608</u>	<u>4,622</u>
Earnings per share	9		
Basic		<u>4.98 cents</u>	<u>1.21 cents</u>
Diluted		<u>4.93 cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2007 AND 31ST DECEMBER, 2006

		(Unaudited) 30th June, 2007	(Audited) 31st December, 2006
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	69,416	73,881
Prepaid lease payments		247	284
Goodwill		3,561	3,561
Deferred tax assets		758	1,412
		<u>73,982</u>	<u>79,138</u>
CURRENT ASSETS			
Inventories		115,615	74,170
Trade and other receivables	11	97,424	102,762
Prepaid lease payments		75	75
Amount due from a minority shareholder of a subsidiary		–	175
Taxation recoverable		–	236
Investments held-for-trading		26,200	11,922
Derivative financial instruments		–	715
Pledged bank deposits		49,966	18,813
Bank balances and cash		25,506	63,776
		<u>314,786</u>	<u>272,644</u>
CURRENT LIABILITIES			
Trade and other payables	12	76,611	49,755
Derivative financial instruments		2,562	3,821
Tax liabilities		4,615	2,725
Bank borrowings – due within one year	13	9,105	–
Bank overdrafts		2,267	–
		<u>95,160</u>	<u>56,301</u>
NET CURRENT ASSETS		<u>219,626</u>	<u>216,343</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>293,608</u>	<u>295,481</u>
NON CURRENT LIABILITIES			
Deferred tax liabilities		2,556	2,950
		<u>2,556</u>	<u>2,950</u>
NET ASSETS		<u>291,052</u>	<u>292,531</u>
CAPITAL AND RESERVES			
Share capital	14	30,246	30,316
Reserves		252,062	254,322
Equity attributable to equity shareholders of the Company		282,308	284,638
Minority interests		8,744	7,893
TOTAL EQUITY		<u>291,052</u>	<u>292,531</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

	(Unaudited)					Retained profits	Total	Minority interests	Total
	Share capital	Share redemption premium	Capital reserve	Translation reserve	Share option reserve				
At 1st 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 30th 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>
At 1st January, 2006	31,054	77,723	2,605	67	881	149,065	261,395	6,073	267,468
Dividend	-	-	-	-	-	(4,622)	(4,622)	-	(4,622)
Repurchase and cancellation of shares	(391)	-	391	-	-	(2,017)	(2,017)	-	(2,017)
Employee share option benefits	-	-	-	-	1,323	-	1,323	-	1,323
Exchange difference on translation of overseas operations	-	-	-	(24)	-	-	(24)	-	(24)
Net profit for the period	-	-	-	-	-	3,740	3,740	314	4,054
At 30th June, 2006	<u>30,663</u>	<u>77,723</u>	<u>2,996</u>	<u>43</u>	<u>2,204</u>	<u>146,166</u>	<u>259,795</u>	<u>6,387</u>	<u>266,182</u>

CONDENSED CASH FLOW STATEMENT

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	11,506	(15,786)
NET CASH USED IN INVESTING ACTIVITIES	(43,748)	(12,756)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(8,298)</u>	<u>14,452</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(40,540)	(14,090)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	63,776	32,279
Effect of foreign exchange rate changes	<u>3</u>	<u>(24)</u>
CASH AND CASH EQUIVALENTS AT 30TH JUNE	<u><u>23,239</u></u>	<u><u>18,165</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	25,506	18,620
Bank overdrafts	<u>(2,267)</u>	<u>(455)</u>
	<u><u>23,239</u></u>	<u><u>18,165</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 31st December, 2006 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 2007 as follows:

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁵

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

² Effective for annual periods beginning on or after 1st March, 2006.

³ Effective for annual periods beginning on or after 1st May, 2006.

⁴ Effective for annual periods beginning on or after 1st June, 2006.

⁵ Effective for annual periods beginning on or after 1st November, 2006

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 standard, revision and interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC) – INT 12	Service Concession Arrangements ³

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

² Effective for annual periods beginning on or after 1st March, 2007.

³ Effective for annual periods beginning on or after 1st January, 2008.

The Directors of the Company anticipate that the application of the standard, revision 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 toys products forming the basis of the Group's business segments reporting.

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

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toys <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE						
External sales	23,153	59,421	44,814	72,529	-	199,917
Inter-segment sales	11	5,309	2,073	710	(8,103)	-
	<u>23,164</u>	<u>64,730</u>	<u>46,887</u>	<u>73,239</u>	<u>(8,103)</u>	<u>199,917</u>
TOTAL REVENUE						
Segment results	<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)
						<u>18,307</u>
Profit before tax						18,307
Income tax expenses						(2,386)
						<u>15,921</u>
Profit for the period						<u>15,921</u>

Inter-segment sales are charged at prevailing market rates.

BALANCE SHEET

As at 30th June, 2007 (Unaudited)

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toys <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	97,113	92,407	44,354	68,714	302,588
Unallocated corporate assets					<u>86,180</u>
Consolidated total assets					<u><u>388,768</u></u>
LIABILITIES					
Segment liabilities	25,472	27,996	2,960	22,228	78,656
Bank borrowings					9,105
Unallocated corporate liabilities					<u>9,955</u>
Consolidated total liabilities					<u><u>97,716</u></u>

OTHER INFORMATION

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

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toys <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	1,123	2,457	5	2,238	5,823
Depreciation of property, plant and machinery	2,183	3,735	38	2,865	8,821
Release of prepaid lease payments	-	-	-	37	37

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

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

Inter-segment sales are charged at prevailing market rates.

BALANCE SHEET*As at 31st December, 2006 (Audited)*

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toys <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	86,402	102,505	38,000	77,343	304,250
Unallocated corporate assets					<u>47,532</u>
Consolidated total assets					<u><u>351,782</u></u>
LIABILITIES					
Segment liabilities	13,708	20,958	1,481	21,682	57,829
Unallocated corporate liabilities					<u>1,422</u>
Consolidated total liabilities					<u><u>59,251</u></u>

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

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

3. GEOGRAPHICAL SEGMENTS

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

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales revenue by geographical market:		
Hong Kong	109,477	114,836
Europe	19,243	28,313
America	25,488	21,287
Asia (other than Hong Kong)	42,460	30,567
Others	3,249	1,228
	<u>199,917</u>	<u>196,231</u>

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

	(Unaudited)	(Audited)
	30th June,	31st December,
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	195,252	193,031
The People's Republic of China (the "PRC")	193,516	158,751
	<u>388,768</u>	<u>351,782</u>

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

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	88	39
The PRC	5,735	4,700
	<u>5,823</u>	<u>4,739</u>

4. OTHER INCOME

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	62	214
Interest income	1,935	361
Dividend income from investments held-for-trading	127	84
Gain on disposal of investments held-for-trading	5,681	3,999
Change in value of derivative financial instruments	544	–
Exchange gain on financial instruments	1,692	–
Others	1,234	1,659
	<u>11,275</u>	<u>6,317</u>

5. OTHER EXPENSES

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Decrease in fair value of investments held-for-trading	<u>997</u>	<u>1,575</u>

6. PROFIT BEFORE TAX

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	8,821	9,750
Release of prepaid lease payments	37	37
Loss on disposals of property, plant and equipment	532	–
Share-based payments expenses	<u>–</u>	<u>1,323</u>

7. INCOME TAX EXPENSES

	(Unaudited) For the six months ended 30th June,	
	2007	2006
	HK\$'000	HK\$'000
Tax charge comprises:		
Hong Kong Profits tax		
Current year	2,126	598
Deferred taxation	260	(330)
	<u>2,386</u>	<u>268</u>

Hong Kong Profits Tax is stated at 17.5% (2006: 17.5%) of the estimated assessable profits for the period.

8. DIVIDENDS

	(Unaudited) For the six months ended 30th June,	
	2007	2006
	HK\$'000	HK\$'000
Final paid:		
HK5 cents per share for 2006 (2006: HK1.5 cents per share for 2005)	<u>16,608</u>	<u>4,622</u>

The directors have resolved to declare an interim dividend of HK2.5 cents (2006: HK1 cent) per share.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the net profit for the period of approximately HK\$15,070,000 (2006: HK\$3,740,000) and the following data:

	(Unaudited) For the six months ended 30th June,	
	2007	2006
Weighted average number of ordinary shares for the purposes of basic earnings per share	302,788,829	308,570,590
Effect of dilutive potential ordinary shares:		
Share options	<u>2,955,255</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>305,744,084</u>	<u>308,570,590</u>

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

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$5,823,000 (2006: HK\$4,739,000).

11. TRADE AND OTHER RECEIVABLES

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

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

	(Unaudited) 30th June, 2007 <i>HK\$'000</i>	(Audited) 31st December, 2006 <i>HK\$'000</i>
0-60 days	66,593	58,013
61-90 days	13,189	9,966
91-120 days	7,740	13,448
over 120 days	6,020	12,886
	<u>93,542</u>	<u>94,313</u>

12. TRADE AND OTHER PAYABLES

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

	(Unaudited) 30th June, 2007 <i>HK\$'000</i>	(Audited) 31st December, 2006 <i>HK\$'000</i>
0-60 days	34,648	21,888
61-90 days	6,094	4,724
91-120 days	3,995	1,084
over 120 days	1,360	953
	<u>46,097</u>	<u>28,649</u>

13. BANK BORROWINGS – DUE WITHIN ONE YEAR

	(Unaudited) 30th June, 2007 <i>HK\$'000</i>	(Audited) 31st December, 2006 <i>HK\$'000</i>
Trust receipt loans	<u>9,105</u>	<u>–</u>

The amounts are unsecured and bear interest at prevailing market rates.

14. SHARE CAPITAL

	(Unaudited)			
	Authorised		Issued and fully paid	
	For the six months ended 30th June,			
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$ 0.1 each				
At beginning of the period	70,000	70,000	30,316	31,054
Issue of shares on exercise of options	–	–	100	–
Share repurchased and cancelled	–	–	(170)	(391)
	<u>70,000</u>	<u>70,000</u>	<u>30,246</u>	<u>30,663</u>
At end of the period	<u>70,000</u>	<u>70,000</u>	<u>30,246</u>	<u>30,663</u>

15. COMMITMENTS

(a) Capital commitments for property, plant and equipment

	(Unaudited)	(Audited)
	30th June,	31st December,
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for	166	392
Authorised but not contracted for	411	–
	<u>577</u>	<u>392</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)	(Audited)
	30th June,	31st December,
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	6,291	7,748
Over 1 year but within 5 years	9,513	14,367
Over five years	34,875	37,666
	<u>50,679</u>	<u>59,781</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 30th June, 2007, the Group carried outstanding forward contracts which entitled commitments for purchase of listed securities of approximately HK\$174,280,000 (31st December, 2006: HK\$36,267,000). In the opinion of the directors, the commitments will be settled monthly with an amount ranging from HK\$13 million to HK\$18 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\$11,372,000 (31st December, 2006 : 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 30th June,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental expenses paid to:		
Nice Step Investment Limited (<i>Note</i>)	562	585
Mr. Poon Siu Chung	<u>84</u>	<u>84</u>

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The directors have resolved to declare an interim dividend for the six months ended 30th June, 2007 of HK2.5 cents per share (2006: HK1 cent) payable on or about 17th October, 2007 to shareholders on the register of members of the Company (the “Register of Members”) on 5th October, 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 4th October, 2007 to 5th October, 2007, 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 3rd October, 2007.

BUSINESS REVIEW

During the period under review, the total revenue of the Group as a whole remained quite stable at approximately HK\$199,917,000 (2006: HK\$196,231,000), representing a very slight increase of not more than 2%, while the profit attributable to equity shareholders increased substantially to approximately HK\$15,070,000 (2006: HK\$3,740,000), representing a growth of more than 3 times as expected and stated in the Company’s last Annual Report to share a more fruitful results of the Group with its shareholders in 2007.

The substantial growth in results in the first half of the year of the Group was mainly due to the improvements in the performance in three out of the four business segments of the Group as a result of global economic recovery together with the efforts made in the enhancement of profit margins of the Group’s products. Besides, the Group efficiently utilized its available funds on hand to invest in various types of yield enhancing products, especially in the Hong Kong listed securities, together with some in equity linked high yield deposits and other financial instruments such as hedging for Reminbi and US Dollars. The gross investment income for the period amounted to approximately HK\$8,840,000 (2006: HK\$2,508,000) representing a growth of more than 2.5 times. Details of the investment held by the Group will be discussed further below.

Novelties and decorations

The revenue of the novelties and decorations segment decreased by about 17% amounting to approximately HK\$23,153,000, while the contribution of the segment stood at approximately HK\$1,993,000, representing a growth of about 63%. It is the present practice of the customers to delay their shipment date more closer to the date of the festivals, such as Halloween and Christmas, as such the revenue of the segment continued to drop in the first half of the year. However, it is optimistic that the revenue for the whole year will keep stable while a reasonable level of profit margin is maintained.

Packaging products

The revenue in the packaging segment decreased by about 16% amounting to HK\$59,421,000, and recorded a small contribution of approximately HK\$220,000, while the segment results were negative for the past two years. As stated in previous financial reports of the Company, certain old business lines/products, especially the sales and manufacture of PVC-film packaging products, were no longer profitable and the Group has terminated the business line at the end of 2006, and led to the loss of certain customers in other related products, such as PVC folding box, as a result, the revenue dropped as stated above. Nevertheless, the segment has started to resume a break-even position, after the implementation of the process of repositioning the product mix.

Trading activities

The revenue of the segment increased by about 18% to approximately HK\$44,814,000, but the results of the segment dropped by about 17% to approximately HK\$836,000. Faced with keen competition in the business together with the fluctuations of the price of oil and petroleum, the profit margin of the segment became thinner and thinner. Nevertheless, since the materials are the major components of the Group's products, maintaining the business is strategically beneficial to the Group as a whole.

Toy products

Continuing the growth in the second half of the year 2006, both the revenue and contribution of the segment continued to increase and stood at approximately HK\$72,529,000 and HK\$7,895,000 respectively, representing growth of about 21% and 54% respectively. Since the final acquisition of the segment in mid-2005, the benefits of synergy effects completely reflect in the segment results from the second half of 2006. Both sub-divisions of the segment, businesses of toys products and moulding products grow steadily and profitably.

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 gross investment income from aforesaid transactions amounted to approximately HK\$8,840,000 (2006: HK\$2,508,000) representing a growth of more than 2.5 times as a result of the booming stock market conditions.

Investment 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\$10,600,000 (31st December, 2006: HK\$4,198,000), while the remaining HK\$15,600,000 (31st December, 2006: HK\$7,724,000) were held as equity linked deposits.

As at 30th June, 2007, the Group carried outstanding forward contracts which entailed a commitment for purchase of listed securities of notional amount of approximately HK\$174,280,000 (31st December, 2006: HK\$36,267,000). The commitment will be settled monthly with an amount ranging from approximately HK\$13 million to HK\$18 million. Usually the securities acquired will be disposed of shortly, and thus the commitment is not expected to have a material adverse impact on cash flow.

FUTURE PLAN AND PROSPECT

As usual the Group will adopt a prudent policy in the expansion of existing businesses where reasonable profitability is expected, and the Group will continue to search for other investment opportunities for further growth and expansion of the Group as a whole.

In view of the efforts made by the Group in improving the performance of the various segments of the Group and the results achieved in the first half of the year 2007, even though contributions from the segment of trading activities dropped while other 3 segments showed a substantial improvement in contributions made as expected, further growth in the toys segment and seasonal improvement in the performance of the novelty and festival decoration segment are expected in the second half of the year. The Directors are optimistic and confident that the results of the Group for the whole year of 2007 will be satisfactory to its shareholders.

Liquidity and financial resources

As at 30th June, 2007, the Group had no long-term finance lease obligations and bank borrowings (31st December, 2006: nil), while the short-term bank borrowings were approximately HK\$9,105,000 (31st December, 2006: nil), and none of the Group's plant and machinery (31st December, 2006: 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 4.03% (31st December, 2006: nil).

Finance costs

The Group's finance cost amounted to approximately HK\$109,000 (2006: HK\$321,000).

Pledge of Assets

At 30th June, 2007, 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\$18,400,000 (31st December, 2006: HK\$11,922,000); and
- (ii) Bank balances and cash of approximately HK\$49,966,000 (31st December, 2006: HK\$18,813,000).

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

Employees and remuneration policies

As at 30th June, 2007, 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.

At the balance sheet date, the Group has entered into several financial instruments with its major bankers 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 17th May, 2002 and will expire on 16th May, 2012. The primary purpose of the Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

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

At the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 16,000,000, representing approximately 5.29% of the shares of the Company in issue at that date.

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

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

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

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

	Number of options outstanding at 1/1/2007	Number of options granted during the period	Number of shares issued and exercise of options during the period	Number of options outstanding at 30/6/2007	Date granted	Exercise price per share HK\$	Exercisable Period
Directors							
– Ip Siu On	3,000,000	–	–	3,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
– Tsui Yan Lee, Benjamin	3,000,000	–	1,000,000	2,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
Employees	9,000,000	–	–	9,000,000	24-Mar-06	0.540	24-Apr-06 to 31-Dec-14
	<u>15,000,000</u>	<u>–</u>	<u>1,000,000</u>	<u>14,000,000</u>			
Others	1,000,000	–	–	1,000,000	05-Jun-02	0.664	05-Jul-02 to 17-May-12
	1,000,000	–	–	1,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
	<u>2,000,000</u>	<u>–</u>	<u>–</u>	<u>2,000,000</u>			
Grand Total	<u>17,000,000</u>	<u>–</u>	<u>1,000,000</u>	<u>16,000,000</u>			

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

Share options were exercised on 22nd June, 2007 and the closing price of the Company's shares on that date was HK\$1.07.

DIRECTORS' INTERESTS IN SHARES

At 30th June, 2007, the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

(A) Long Positions in shares of the Company

Directors	Capacity	No. of shares held	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner Interest of spouse and controlled corporation	22,416,000 103,421,630	125,837,630 (a)	41.60
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	20.86
Mr. Ip Siu On	Beneficial owner	6,803,600	6,803,600	2.25
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	3,411,000	3,411,000	1.13
Mr. Yip Chi Hung	Interest of controlled corporation	1,200,000	1,200,000 (c)	0.40

Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 22,416,000 shares (“Shares”) of the Company and he was deemed to be interested in 1,664,000 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 1,200,000 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 30th June, 2007, the register of substantial shareholders’ interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the share capital of the Company as follows:

Long Positions in shares of the Company

Shareholders	Capacity	No. of shares held	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Interest of spouse and controlled corporation	125,837,630 (g)	41.60
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200 (h)	20.86
Allianz Aktiengesellschaft	Interest of controlled corporation	62,034,971 (i)	20.51
Dresdner Bank Aktiengesellschaft	Interest of controlled corporation	62,034,971 (i)	20.51
Veer Palthe Voute NV	Investment Manager	62,034,971 (i)	20.51

Notes:

- (g) Under SFO, Ms. Lau Kwai Ngor was the beneficial owner of 1,664,000 Shares and was deemed to be interested in 124,173,630 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 Aktiengesellschaft and Dresdner Bank Aktiengesellschaft were deemed to be interested in the 62,034,971 shares of the Company held by Veer Palthe Voute NV.

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

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

	No. of shares of HK\$0.10 each	Price per share		Aggregate
		Highest HK\$	Lowest HK\$	consideration paid HK\$
Month of repurchase				
March 2007	1,200,000	0.820	0.790	970,480
June 2007	500,000	0.860	–	432,802
	<u>1,700,000</u>			<u>1,403,282</u>

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (“Code Provisions”) contained in Appendix 14 to 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 to the Listing Rules ("Model Code").

After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions during the six months ended 30th June, 2007.

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 30th June, 2007 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 to 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, 6th September, 2007