

Towards a
Prosperous
Year

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Perfectech

Perfectech International Holdings Limited

(Incorporated in Bermuda with limited liability)

Annual Report 2006

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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, Ronald

Independent Non-executive Directors:

Mr. Ng Siu Yu, Larry

Mr. Lam Yat Cheong

Mr. Yip Chi Hung

Company secretary

Ms. Pang Siu Yin

Auditors

HLM & Co.

Legal advisor

Cheung, Tong and Rosa

Registered office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head office and principal place of business

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

Principal bankers

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

Hong Kong share and warrant registrars and transfer office

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at Chater Room II, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road Central on 31st May, 2007 at 3:30p.m., Hong Kong for the purpose of transacting the following business:

ORDINARY BUSINESS

1. To receive and consider the consolidated audited financial statements and the reports of the directors of the Company (“Directors”) and the auditors of the Company (“Auditors”) for the year ended 31st December, 2006.
2. To declare a final dividend of HK5.5 cents per share.
3. To elect Mr. Choy Wing Keung, David as an independent non-executive Director.
4. To re-elect the retiring Directors.
5. To authorise the board of Directors of the Company to fix the Directors’ remuneration.
6. To re-appoint Messrs. HLM & Co. as the Auditors and authorise the board of directors of the Company to fix their remuneration.

SPECIAL BUSINESS

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

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

NOTICE OF ANNUAL GENERAL MEETING

- b. for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:
- i. the conclusion of the next annual general meeting of the Company;
 - ii. the expiration of the period within which the next annual general meeting of the Company is required by law or the articles of association of the Company to be held; and
 - iii. the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting;

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

8. **"THAT** there be granted to the Directors an unconditional general mandate to repurchase Shares, and that the exercise by the Directors of all powers of the Company to purchase Shares subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved, subject to the following conditions:
- (a) such mandate shall not extend beyond the Relevant Period;
 - (b) such mandate shall authorise the Directors to procure the Company to repurchase Shares at such price as the Directors may at their discretion determine;
 - (c) the Shares to be repurchased by the Company pursuant to paragraph (a) of this resolution during the Relevant Period shall be no more than ten percent of the Shares in issue at the date of passing this resolution; and
 - (d) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:
 - i. the conclusion of the next annual general meeting of the Company;
 - ii. the expiration of the period within which the next annual general meeting of the Company is required by law or the articles of association of the Company to be held; and
 - iii. the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

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

By order of the Board
Poon Siu Chung
Chairman

Hong Kong, 30th April, 2007

Notes:

1. The Hong Kong Branch Register of Members of the Company will be closed from 28th May, 2007 to 31st May, 2007, on which date no transfers of Shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting to be held on 31st May, 2007, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Standard Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30p.m. on 25th May, 2007.
2. A member of the Company who is a holder of two or more Shares, and who is entitled to attend and vote at the Annual General Meeting is entitled to appoint more than one proxy or a duly authorised corporate representative to attend and vote in his stead. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending the Annual General Meeting and vote in person. In such event, his form of proxy will be deemed to have been revoked.
3. A form of proxy for the Annual General Meeting is enclosed with the 2006 annual report of the Company. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the Annual General Meeting or any adjournment thereof.
4. With regard to resolutions nos. 7 and 9 above, the Directors wish to state that they have no immediate plans to issue any new Shares of the Company pursuant to the general mandate granted under resolution no. 7 above.

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

Chairman's Statement

Towards a Prosperous Year

The Directors have resolved to announce the audited consolidated results for the year ended 31st December, 2006. Total turnover for the year amounted to approximately HK\$538,875,000 (2005: HK\$515,875,000). The net profit stood at approximately HK\$33,763,000 (2005: HK\$10,701,000). Earnings per share were HK11.01 cents (2005: HK3.46 cents).

FINAL DIVIDEND

The Directors recommend the payment of a final dividend for the year ended 31st December, 2006 of HK5.5 cents per share (2005: HK1.5 cents per share) payable to shareholders on the register of members of the Company (the "Register of Members") on 31st May, 2007. This dividend together with the interim dividend of HK1.0 cent per share (2005: HK0.5 cent per share), will mean a total dividend of HK6.5 cents per share for the year (2005: HK2.0 cents per share). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on or about 12th June, 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 28th May, 2007 to 31st May, 2007, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong at Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 25th May, 2007.

BUSINESS REVIEW

During the year, the turnover of the Group increased by approximately 4% to approximately HK\$538,875,000, while the net profit for the year was approximately HK\$33,763,000 representing a rapid growth of approximately 215%. The gentle growth in turnover was mainly contributed by the segment of toys products, which was acquired by the Group in 2003 and the holding company of which has become the wholly owned subsidiary of the Group since 2005.

To the Group, the year of 2006 was quite a fruitful year. The substantial increase in the contribution from the toys segment together with the recovery of the novelty and festival decorations segment contributed greatly to the success of the Group in 2006. The performance of each segment will be further discussed below.

The year of 2006 was still a year of challenge for the Group, though not as tough as 2005. The prices of various kinds of raw materials were still very volatile, especially paper and PVC raw materials, both being the Group's principal sources of production. The continuing increase in the wages level in the People's Republic of China (the "PRC") led to an ever-increasing cost of production in the PRC. Despite our effort in cutting the staff costs for the Group, such costs still increased by about 18% in the PRC, while the turnover of the Group increased by only about 4%.

For the year 2006, the profits of the Group included a decrease in the fair value of derivative financial instruments of approximately HK\$3,456,000, which were held by the Group for investment and hedging purposes, gain on disposal of an investment property of approximately HK\$490,000, and after the deduction of a share related payment on the share options granted to employees of approximately HK\$1,323,000, and an impairment loss of goodwill of approximately HK\$321,000.

Finance costs decreased by about 31% to approximately HK\$1,464,000. This was mainly due to repayment of a term loan raised in 2005 by the Group as working capital for future expansion and development during the year and the cash generated from operation.

FUTURE PLAN & PROSPECT

Hunting for potential investment opportunities in merger and acquisition of the Group's related businesses for further growth and expansion is the Group's long-term strategy. The Group will carefully study the feasibility of any such opportunity in terms of profitability of the project, the financial positions of the Group and also other resources that are available.

For the existing businesses of the Group, measures for re-structuring the segment of packaging products have been undertaken, and it is expected that the performance of the segment will improve; while the segment of trading activities will continue to face keen competition from ultimate manufacturers together with credit risk on customers, and the segment has to strive for survival.

Even though the performance of the aforesaid two segments may not be good enough to support a brilliant result of the Group, the Directors are still optimistic and confident that the overall results of the Group in 2007 will be further improved as a result of the continuous recovery of the novelty and festival decorations segment together with the further growth in the toys segment, in which, further improvements in both the moulding sub-division and toys products sub-division are expected. It is the target of the Directors of the Company to share a more fruitful results of the Group with its shareholders in 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Segment Results

Novelties and decorations

The turnover of this segment for the year remained quite stable and stood at approximately HK\$139,369,000, while the segment result increased by about 92% to approximately HK\$15,497,000. The result of the segment increased substantially due to the Group's policy to raise the selling price to improve profit margin instead of by cutting price to boost the revenue and to change the ways of production and even the methods of rewarding the labour in order to increase productivity, as stated in the last annual report of the Company.

Packaging products

The turnover of packaging products to external customers also remained at last year's level of approximately HK\$152,720,000, while the segment result increased gently by about 7% to HK\$3,481,000. Despite such an increase in segment result, the segment still encountered keen competition and increase in production costs, and in order to improve the segment result, measures have been undertaken for the repositioning in the product mix. The Group has abandoned the production line of PVC blister and has used the capacity to manufacture other products, which are more profitable.

Trading activities

The turnover of the trading of PVC film and plastic materials decreased by about 22% to HK\$85,468,000, as a result of keen competition in the market and the prudent strategy of the Group for allowing credit to open account customers. Nevertheless, the segment still recorded a contribution of approximately HK\$1,070,000 for the year, as a result of the success of cost control.

Toy products

The turnover of this segment increased substantially by about 41% to approximately HK\$161,318,000, while the segment result therefrom was approximately HK\$15,373,000, representing a growth of about 252%. Both increases in turnover and contribution of the segment were attributed as a result of the synergy effect of the segment together with the original core businesses of the Group since the holding company of the segment became the Group's wholly owned subsidiary in mid-2005.

Investments

To well utilize the available cash on hand, the Group has invested in the securities of various listed companies, which are held for short-term purposes for capital gain in the value of the securities. As at the balance sheet date, the market value of investment in securities was approximately HK\$4,198,000.

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

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 dominated in Renminbi.

At the balance sheet date, the Group has entered into several financial instruments with its major bankers for the hedging of exposures in US Dollar and Renminbi, especially for the gradual and continuous appreciation of the latter since recent years.

Liquidity and financial resources

As at 31st December, 2006, the long-term finance lease obligation and bank loan of the Group were approximately nil (2005: HK\$500,000), while the short term borrowings were nil (2005: HK\$6,135,000), and none of the Group's plant and machinery (2005: HK\$297,000, net book value) was held under a finance lease. The gearing ratio, measured by total bank and other borrowings divided by equity, of the Group was zero (2005: 2.54%).

At balance sheet date, the Group had bank balances and cash of approximately HK\$63,776,000 (2005: HK\$32,279,000).

With cash and other current assets at 31st December, 2006 of HK\$273 million as well as available banking facilities, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Net asset value

The net asset value of the Group as at 31st December, 2006 was HK\$0.93 per share based on the actual number of 303,159,607 shares in issue on that date.

Employees and remuneration policies

As at 31st December, 2006, the Group employed approximately 3,400 full time employees. The Group remunerates its employees largely based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

CHAIRMAN'S STATEMENT

APPRECIATION

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

On behalf of the Board

Poon Siu Chung

Chairman & Managing Director

Hong Kong, 23rd April, 2007

Biographical Details of Directors and Senior Management Staff

DIRECTORS

Executive Directors

Mr. POON Siu Chung, aged 57, is the Chairman and Managing Director of the Company. Mr. Poon is the co-founder of the group and has over 30 years' experience in the plastic industry and toy business. He oversees the Group's operations and is responsible for formulating the Group's overall corporate policies and development plans.

Mr. LEUNG Ying Wai, Charles, aged 57, is the Deputy Managing Director of the Company and the co-founder of the Group. Mr. Leung advises on the Group's overall corporate policies and development plans. He holds a Bachelor of Business Administration Degree from the Chinese University of Hong Kong and has over 30 years' experience in the manufacturing field.

Mr. IP Siu On, aged 53, is primarily responsible for the sales and marketing of the Group's Packaging products. Before joining the Group in 1984, Mr. Ip had over 10 years' experience in the field of dye mixing and packaging products.

Mr. TSUI Yan Lee, Benjamin, aged 47, is responsible for the sales and marketing of the Group's novelties and festival decorations. Prior to joining the Group in 1983, he worked in a manufacturing company as a sales executive for over 3 years.

Non-executive Director

Mr. TONG Wui Tung, Ronald, aged 57, is a non-executive Director. He has been practicing as a solicitor in Hong Kong for over 20 years and is a partner of the law firm, Messrs. Cheung, Tong & Rosa. He is also a Notary Public and a China Appointed Attesting Officer, and is admitted as a solicitor in several other jurisdictions. Mr. Tong was a non-executive director of Multifield International Holdings Limited from September 1997 to September 2004, an independent non-executive director of Beauforte Investors Corporation Limited from November 2000 to March 2004, an independent non-executive director of Wonson International Holdings Limited from December 1999 to November 2006, and is currently a non-executive director of Yip's Chemical Holdings Limited and an independent non-executive director of Country Garden Holdings Company Limited, all being companies listed on The Stock Exchange of Hong Kong Limited.

Independent non-executive Directors

Mr. NG Siu Yu, Larry, aged 51, is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 10 years' experience in the field of finance and accounting and is currently the managing director of a private company engaged in financial printing.

Mr. LAM Yat Cheong, aged 46, graduated from the Hong Kong Baptist University. Mr. Lam is a Certified Public Accountant and a sole proprietor of an audit firm and has over 18 years of auditing and accounting experience. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute Public Accountants. He is also an independent non-executive director of Lee's Pharmaceutical Holdings Limited and Wuyi International Pharmaceutical Company Limited, companies listed in Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT STAFF

Mr. YIP Chi Hung, aged 48, is experienced in the construction industry. Mr. Yip is a director of Fong Wing Shing Construction Company Limited. He has over 20 years of experience on a variety of building and maintenance projects for both the public and private sectors and is also well versed in the development of properties in Hong Kong and Singapore. He is also the chairman and executive director of PacMOS Technologies Holdings Limited, a company listed in Hong Kong.

SENIOR MANAGEMENT

Mr. FUNG Kun Kwai, aged 53, is the factory manager of the Group. He joined the Group in 1978 and has more than 20 years' experience in vacuum forming operations. Mr. Fung is responsible for overseeing the production facilities of the Group.

Mr. YUEN Che Wai, Victor, aged 41, is the Group's financial controller. Mr. Yuen is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is responsible for the overall supervision on the accounting and finance functions of the Group. Mr. Yuen holds a diploma in accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University). He joined the Group in 1991 and has more than 10 years' experience in the audit and accounting field.

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31st December, 2006, the Company has adopted the code provisions (the "Code Provisions") set out in the "Code on Corporate Governance Practices" (the "Code") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its corporate governance code and has complied with the Code Provisions, save for the following deviation.

Code Provision A.2.1

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

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

THE BOARD OF DIRECTORS

The Role of the Board

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

The types of decisions taken out by the Board include:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;

CORPORATE GOVERNANCE REPORT

- remuneration of Directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies.

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

Board Composition

The Board comprises 8 Directors, 4 of whom are Executive Directors, 1 being a Non-Executive Director (“NED”) and 3 being Independent Non-Executive Directors (“INEDs”). All Directors served for the full year of 2006. For the biographies of the Directors, please refer to this Annual Report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

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

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

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

Board Process

In addition to Board meetings that are held regularly to discuss and approve the Group's results, additional Board meetings are held from time to time to discuss important matters that require the Board's attention and decision. In 2006, there were 26 Board meetings held, and the attendance of the Directors is set out below:

Directors	Attendance	
	Regular Board Meeting	Special Board Meeting
<i>Executive Directors</i>		
Poon Siu Chung (<i>Chairman</i>)	4/4	22/22
Ip Siu On	2/4	22/22
Tsui Yan Lee, Benjamin	2/4	22/22
Leung Ying Wai	0/4	4/22
<i>Non-Executive Director</i>		
Tong Wui Tung, Ronald	4/4	0/22
<i>Independent Non-Executive Directors</i>		
Ng Siu Yu, Larry	4/4	1/22
Yip Chi Hung	4/4	1/22
Lam Yat Cheong	4/4	1/22

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

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

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

Nomination, Appointment and Re-election of Directors

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

Procedure for Nomination of Directors

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

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

2. Criteria Applicable to NEDs/INEDs

- (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings
- (b) Accomplishments of the candidate in his or her field
- (c) Outstanding professional and personal reputation
- (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

In 2006, there had not been any vacancy to fill within the Board, and the Board did not engage in any work in relation to the appointment or removal of Directors.

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

In the last AGM held on 24th May, 2006, all the NED and INEDs were elected to hold office for a specific term of approximately one year until the next AGM, subject to re-election by shareholders.

Directors' Securities Transactions

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

Following specific enquiry by the Group, all Directors have confirmed that throughout year 2006 they complied with the required standard set out in the Model Code for securities transactions.

The Directors' interests in shares of the Group as at 31st December, 2006 are set out in this Annual Report.

Internal Control

The Board annually conducts a review on the effectiveness of the system of internal control of the Group. In 2006, the Board has conducted such a review and confirms that no major issues have been discovered. Throughout this review process, the Board has examined the reports on internal control and procedures in place submitted by the various functional units of the Group.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee

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

The Committee comprises Mr. Tong Wui Tung, Ronald as an NED, Mr. Lam Yat Cheong, Mr. Yip Chi Hung, who is also the chairman of the Committee, and Mr. Ng Siu Yu, Larry as INEDs, Mr. Poon Siu Chung as an Executive Director, and Mr. Yuen Che Wai, Victor, the Financial Controller of the Company.

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

During 2006, the Committee met once and discussed and approved a revised remuneration scheme for the executive directors.

Details of the members' attendance at the Remuneration Committee meeting in 2006 are as follows:

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

Emolument Policy and Long-Term Incentive Plan

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

Emolument Policy for Executive Directors ("EDs")

1. A proportion of EDs' remuneration should be structured so as to link rewards to corporate and individual performance.
2. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of EDs.
3. The performance-related elements of remuneration should be designed to align the EDs' interests with those of shareholders and to give these Directors keen incentives to perform at the highest levels.

4. Factors for Defining Performance-Based Remuneration:
 - 4.1. Eligibility for annual bonuses and any upper limits
 - 4.2. Annual bonuses should be linked to relevant performance indicators designed to enhance the Company's business
 - 4.3. Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company's performance
 - 4.4. Examples of performance indicators:
 - (a) share price
 - (b) net earnings figure

Emolument Policy for NEDs

1. Levels of emolument of NEDs should reflect the time commitment and responsibilities of the role.
2. NEDs should have the opportunity to take part of their remuneration in shares but share options should be granted in accordance with the Listing Rules.

Principles of Long-Term Incentive Schemes

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.
2. The link between executive reward and company performance should be strong and clear.
3. Grants under such schemes should be phased rather than awarded in one large block.

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

Audit Committee

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

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

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

The details of the members' attendance in Committee meetings in 2006 are as follows:

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

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

The Audit Committee's work in 2006 includes consideration of the following matters:

- the completeness and accuracy of the 2005 annual and 2006 interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;

- the management letter submitted by the external auditors summarizing matters arising from their audit of the Group for year 2005;
- detailed analysis of various aspects of the Company's financial performance; and
- investment policies and possible impact of certain investment transactions.

External Auditors

The Company's external auditor has been Deloitte Touche Tohmatsu until its resignation on 8th December, 2006, and since then HLM & Co. has succeeded as the Company's external auditor. During 2006, the Group did not engage Deloitte Touche Tohmatsu or HLM & Co. in any non-audit services, and did not pay Deloitte Touche Tohmatsu any amount as no audit work has been commenced by them and will pay HLM & Co. approximately HK\$660,000 for their audit services for 2006.

The Audit Committee has recommended to the Board to re-appoint HLM & Co. for conducting statutory audits for the Group for the financial year of 2007, which the Board has agreed. This is subject to approval and authorization by the shareholders at the 2007 AGM.

CORPORATE COMMUNICATION

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

Shareholders' Rights

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

The most recent shareholders' meeting was the AGM held on 24th May, 2006 at the Ritz-Carlton Hotel in Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated audited financial statements and reports for the Directors and auditors for the year ended 31st December, 2005;
- declaring the final dividend;
- re-electing certain Directors and authorizing the Board to fix their remunerations;
- re-appointing auditors and authorizing the Board to fix their remunerations;
- passing a general mandate to allow the Directors to allot and issue shares of the Company; and
- passing a general mandate to allow the Directors to repurchase shares of the Company.

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 42 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 34.

An interim dividend of HK1.0 cent per share amounting to approximately HK\$3,048,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK5.5 cents per share to the shareholders on the register of members on 31st May, 2007, amounting to approximately HK\$16,674,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 31% of the total turnover of the Group and the largest customer accounted for approximately 19% of the total turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for approximately 44% of the total purchases of the Group and the largest supplier accounted for approximately 25% of the total purchases of the Group.

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

INVESTMENT PROPERTIES

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

PROPERTY, PLANT AND EQUIPMENT

The Group continued its replacement policy and expended HK\$7,398,000 on property, plant and equipment during the year.

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

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31st December, 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$42,405,000 of which HK\$16,674,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$77,723,000, may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive directors

Mr. Poon Siu Chung

(Chairman and Managing Director)

Mr. Leung Ying Wai, Charles

(Deputy Chairman)

Mr. Ip Siu On

Mr. Tsui Yan Lee, Benjamin

Non-executive director

Mr. Tong Wui Tung, Ronald

Independent non-executive directors

Mr. Ng Siu Yu, Larry

Mr. Lam Yat Cheong

Mr. Yip Chi Hung

In accordance with Clause 99(B) of the Company's bye-laws, Mr. Leung Ying Wai, Charles, Mr. Ip Siu On and Mr. Tsui Yan Lee, Benjamin will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

DIRECTOR'S SERVICE CONTRACTS

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

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

They will hold office until the conclusion of the forthcoming annual general meeting of the Company.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31st December, 2006, the interests of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

(A) Long positions in shares of the Company

Director	Capacity	No. of shares held	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner	21,496,000		
	Interest of spouse and controlled corporation	102,941,630	124,437,630 (a)	41.05
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	20.81
Mr. Ip Siu On	Beneficial owner	6,803,600	6,803,600	2.24
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	3,411,000	3,411,000	1.13
Mr. Ng Siu Yu, Larry	Beneficial owner	880,000	880,000	0.29
Mr. Yip Chi Hung	Interest of controlled corporation	300,000	300,000 (c)	0.10

Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 21,496,000 shares of the Company and he was deemed to be interested in 1,184,000 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 300,000 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) Long position in shares of associated corporations of Company

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

REPORT OF THE DIRECTORS

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

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the directors, nor their associates, had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations as at 31st December, 2006.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 38 to the financial statements.

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

	Number of options outstanding 1.1.2006	Number of options granted during the year	Number of exercised options during the year	Number of options outstanding at 31.12.2006	Date granted	Exercise price per share HK\$	Exercise period
Directors							
Ip Siu On	3,000,000	–	–	3,000,000	2nd February, 2005	0.608	2nd May, 2005 – 31st December, 2014
Tsui Yan Lee, Benjamin	3,000,000	–	–	3,000,000	2nd February, 2005	0.608	2nd May, 2005 – 31st December, 2014
Employees	–	9,000,000	–	9,000,000	24th March, 2006	0.540	24th April, 2006 – 31st December, 2014
	<u>6,000,000</u>	<u>9,000,000</u>	<u>–</u>	<u>15,000,000</u>			
Others	1,000,000	–	–	1,000,000	5th June, 2002	0.664	5th July, 2002 – 17th May, 2012
	1,000,000	–	–	1,000,000	2nd February, 2005	0.608	2nd May, 2005 – 31st December, 2014
	<u>2,000,000</u>	<u>–</u>	<u>–</u>	<u>2,000,000</u>			
Grand Total	<u>8,000,000</u>	<u>9,000,000</u>	<u>–</u>	<u>17,000,000</u>			

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

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

Date of grant	Number of shares issuable under options granted	Option value	Closing share price at date of grant	Risk free rate	Expected volatility note (i)	Expiration of the options	Expected ordinary dividend note (iii)
				(being the yield of 10-year Exchange Fund Notes)			
24th March, 2006	9,000,000	HK\$1,323,000	HK\$0.52	4.54%	41.68%	31st December, 2014	5.29%

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

- (a) During the year, Perfectech International Limited ("Perfectech"), a wholly-owned subsidiary of the Company, entered into tenancy agreements to rent the following premises from Nice Step Investment Limited, a company controlled by Mr. Leung Ying Wai, Charles, a substantial shareholder and director of the Company:
 - (i) premises at the 1st floor (with gross floor area of approximately 5,070 sq.ft.) of Perfertech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period commencing from 11th July, 2006 and expiring on 19th April, 2008 at a monthly rent of HK\$22,308.
 - (ii) premises at the 2nd floor (with gross floor area of approximately 5,070 sq.ft.) and car parking space No.3 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of two years commencing from 20th April, 2006 at a monthly rent of HK\$24,708.

REPORT OF THE DIRECTORS

- (iii) premises at the 3rd floor (with gross floor area of approximately 5,070 sq.ft.) and car parking space No.4 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of two years commencing from 20th April, 2006 at a monthly rent of HK\$24,708.
- (iv) premises at the 4th floor (with gross floor area of approximately 3,096 sq.ft.), flat roof at the 4th floor (with gross floor area of approximately 1,963 sq.ft.) and car parking space No.5 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of two years commencing from 20th April, 2006 at a monthly rent of HK\$21,911.40.
- (v) premises at the 5th floor (with gross floor area of approximately 3,096 sq.ft.) of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 15th August, 2003 at a monthly rent of HK\$10,836.

During the year, the Group paid rental expenses of approximately HK\$1,144,000 to Nice Step Investment Limited.

- (b) On 2nd February, 2005, Perfectech entered into a tenancy agreement with Mr. Poon Siu Chung, a controlling shareholder and director of the Company, in relation to premises at Nos. 34 and 35 of Xiazha Industrial Street, Jinding Town, Zhuhai, the People's Republic of China, for a monthly rent of HK\$14,000 for a period of three years commencing from 1st January, 2005. The said premises are used by the Group as factories. The total rent payable by the Group for the premises for the full period of the tenancy under the aforesaid tenancy agreement will amount to HK\$504,000. During the year, the Group paid rent to Mr. Poon Siu Chung totalling HK\$168,000.
- (c) During the year, the Group issued guarantees to financial institutions to secure general banking facilities granted to the Group including its subsidiaries which are not wholly-owned by the Group, known as Perfectech Paper Products Company Limited ("Paper"), Perfectech Printing Company Limited ("Printing"), Asia Rich (Far East) Limited ("Asia Rich"), Beyond Growth International Limited ("Beyond Growth"), Dream Creation Limited ("Dream Creation") and Shouji Tooling Factory Limited ("Shouji"). Details of the guarantees and amount utilised as at 31st December, 2006 are as follows:

Subsidiaries connected	In favour of	Guarantee	Amount
		amount	utilised
		HK\$	HK\$
Paper and Printing	The Hong Kong and Shanghai Banking Corporation Limited	90,000,000	–
Asia Rich, Beyond Growth, Dream Creation and Shouji	The Hong Kong and Shanghai Banking Corporation Limited	50,000,000	–
	Hang Seng Bank Limited	40,000,000	–
Beyond Growth, Dream Creation and Shouji	Chong Hing Bank Limited	25,000,000	–

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

Each of the above transactions is a connected transaction under the definition of Chapter 14A of the Listing Rules, and the directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section "Directors' Interests in Shares and Options", as at 31st December, 2006, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the shares capital of the Company as follows: –

Long positions in shares of the Company

Shareholder	Capacity	No. of shares held	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Interest of spouse and controlled corporation	124,437,630 (a)	41.05
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200 (b)	20.81
Allianz Aktiengesellschaft	Interest of controlled corporation	62,034,971 (c)	20.46
Dresdner Bank Aktiengesellschaft	Interest of controlled corporation	62,034,971 (c)	20.46
Veer Palthe Voûte NV	Investment Manager	62,034,971 (c)	20.46

REPORT OF THE DIRECTORS

Notes:

- (a) Under the SFO, Ms. Lau Kwai Ngor was the beneficial owner of 1,184,000 shares and was deemed to be interested in 123,253,630 shares of the Company through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 21,496,000 shares of the Company and he was deemed to be interested in 101,757,630 shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor. Of these shares, 618,200 shares are held in trust for others.
- (b) Under the SFO, Ms. Tai Yee Foon was deemed to be interested in 63,097,200 shares of the Company through interests of her spouse, Mr. Leung Ying Wai, Charles. Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, Ms. Tai Yee Foon and his family members.
- (c) Under the 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 Voûte NV.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE

The Company has adopted throughout the year ended 31st December, 2006 the Code of Corporate Governance Practices ("Code Provision") set out in the Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report in page 13 to 21 of this annual report.

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

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

Month of repurchase	No. of shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
January 2006	350,000	0.540	0.530	188,552
February 2006	430,000	0.530	0.510	226,891
March 2006	1,592,000	0.550	0.480	805,985
May 2006	624,000	0.530	0.510	323,684
June 2006	910,000	0.520	0.510	472,414
July 2006	1,060,000	0.550	0.530	579,835
August 2006	764,000	0.550	0.550	423,634
November 2006	1,650,000	0.700	0.650	1,129,685
	<u>7,380,000</u>			<u>4,150,680</u>

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, and details of the scheme are set out in note 38 to the financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

REPORT OF THE DIRECTORS

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 40 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu had been the auditors of the Company for the past three years until its resignation with effect from 8th December, 2006, and since then HLM & Co. has succeeded as the Company's auditors.

The reason for change of auditor is that the Group and Deloitte Touche Tohmatsu could not reach an agreement on the audit fees for the financial year ended 31st December, 2006. The change of auditors could help to maintain the audit fees at a reasonable level. This is in line with the Company's policy to control and reduce the Company's expenses.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. HLM & Co. as auditors of the Company.

On behalf of the Board

Poon Siu Chung

Chairman & Managing Director

Hong Kong, 23rd April, 2007

Independent Auditors' Report

恒健會計師行 HLM & Co. Certified Public Accountants

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

We have audited the consolidated financial statements of Perfectech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 85 which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.
Certified Public Accountants
Hong Kong, 23rd April, 2007

Consolidated Income Statement

For the year ended 31st December, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue	6 & 7	538,875	515,875
Cost of sales		(442,297)	(442,747)
Gross profit		96,578	73,128
Other income		13,559	8,473
Distribution costs		(24,221)	(24,431)
Administrative expenses		(41,397)	(41,327)
Other expenses	8	(3,615)	(1,543)
Increase in fair value of investment properties		–	4,040
Gain on disposal of interest in subsidiaries		54	–
Gain on disposal of investment properties		490	–
Impairment loss on goodwill		(321)	(1,760)
Finance costs	9	(1,464)	(2,115)
Profit before tax	10	39,663	14,465
Income tax expenses	12	(3,317)	(2,982)
Profit for the year		36,346	11,483
Attributable to:			
Equity holders of the Company		33,763	10,701
Minority interests		2,583	782
Profit for the year		36,346	11,483
Dividends	13	7,671	15,345
Earnings per share	14		
Basic		11.01 Cents	3.46 Cents
Diluted		10.99 Cents	N/A

Consolidated Balance Sheet

At 31st December, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	73,881	85,411
Prepaid lease payments	16	284	366
Investment properties	17	–	8,340
Goodwill	18	3,561	3,882
Deferred tax assets	30	1,412	1,062
		79,138	99,061
CURRENT ASSETS			
Inventories	20	74,170	93,485
Trade and other receivables	21	102,762	82,250
Prepaid lease payments	16	75	69
Amount due from a minority shareholder of a subsidiary	22	175	200
Tax recoverable		236	2,220
Investment in bonds	23	–	629
Investments held-for-trading	24	11,922	8,451
Derivative financial instruments	25	715	350
Pledged bank deposits	26	18,813	8,724
Bank balances and cash	22	63,776	32,279
		272,644	228,657
CURRENT LIABILITIES			
Trade and other payables	27	49,755	49,773
Derivative financial instruments	25	3,821	–
Tax liabilities		2,725	820
Bank borrowings – due within one year	28	–	6,000
Obligations under a finance lease – due within one year	29	–	135
		56,301	56,728

Consolidated Balance Sheet

At 31st December, 2006

	<i>Notes</i>	2006 HK\$'000	2005 HK\$'000
NET CURRENT ASSETS		216,343	171,929
TOTAL ASSETS LESS CURRENT LIABILITIES		295,481	270,990
NON-CURRENT LIABILITIES			
Deferred tax liabilities	30	2,950	3,022
Bank borrowings - due after one year	28	–	500
		2,950	3,522
NET ASSETS		292,531	267,468
CAPITAL AND RESERVES			
Share capital	31	30,316	31,054
Reserves		254,322	230,341
Equity attributable to equity holders of the Company		284,638	261,395
Minority interests		7,893	6,073
TOTAL EQUITY		292,531	267,468

The financial statements on pages 34 to 85 were approved and authorised for issue by the board of directors on 23rd April, 2007 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2006

	Share capital	Share premium	Capital redemption reserve	Translation reserves	Share options 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 1st January, 2005	30,640	74,618	2,529	67	–	154,146	262,000	17,470	279,470
Profit for the year	–	–	–	–	–	10,701	10,701	782	11,483
Recognition of equity – settled share based payment	–	–	–	–	1,497	–	1,497	–	1,497
Dividends (Note 13)	–	–	–	–	–	(15,345)	(15,345)	(417)	(15,762)
Shares issued at premium	490	2,489	–	–	–	–	2,979	–	2,979
Transfer from share options reserve	–	616	–	–	(616)	–	–	–	–
Repurchase and cancellation of shares	(76)	–	76	–	–	(437)	(437)	–	(437)
Acquisition of additional equity interest in subsidiaries	–	–	–	–	–	–	–	(11,762)	(11,762)
At 31st December, 2005 and at 1st January, 2006	31,054	77,723	2,605	67	881	149,065	261,395	6,073	267,468
Profit for the year	–	–	–	–	–	33,763	33,763	2,583	36,346
Recognition of equity – settled share based payment	–	–	–	–	1,323	–	1,323	–	1,323
Dividends (Note 13)	–	–	–	–	–	(7,671)	(7,671)	(709)	(8,380)
Repurchase and cancellation of shares	(738)	–	738	–	–	(4,150)	(4,150)	–	(4,150)
Disposal of interest in subsidiaries	–	–	–	–	–	–	–	(54)	(54)
Exchange difference arising on translation of foreign operations	–	–	–	(22)	–	–	(22)	–	(22)
At 31st December, 2006	30,316	77,723	3,343	45	2,204	171,007	284,638	7,893	292,531

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	2006 HK\$'000	2005 HK\$'000
OPERATING ACTIVITIES		
Profit before tax	39,663	14,465
Adjustments for:		
Impairment loss on trade receivables	557	321
Impairment loss on goodwill	321	1,760
Release of prepaid lease payments	76	77
Depreciation of property, plant and equipment	18,928	20,337
Dividend income from investments held-for-trading	(201)	(363)
Finance costs	1,464	2,115
Gain on disposals of investments held-for-trading	(8,800)	(2,808)
Reversal of impairment loss on investment in bonds	–	(500)
Written down of inventories	8,832	1,996
Interest income	(902)	(878)
Gain on disposals of property, plant and equipment and prepaid lease payments	–	(207)
Share-based payment expenses	1,323	1,497
Increase in fair value of investment properties	–	(4,040)
Decrease in fair value of investments held-for-trading	159	880
Decrease in fair value of derivatives financial instruments	3,456	663
Gain on disposal of investment property	(490)	–
Operating cash flows before movements in working capital	64,386	35,315
Decrease in inventories	10,483	3,939
(Increase) decrease in trade and other receivables	(21,069)	8,246
Decrease in amount due from a minority shareholder of a subsidiary	25	–
Decrease in trade and other payables	(18)	(3,119)
Cash generated from operations	53,807	44,381
Hong Kong Profits Tax refund (paid), net	150	(4,515)
NET CASH FROM OPERATING ACTIVITIES	53,957	39,866
INVESTING ACTIVITIES		
Purchase of investments held-for-trading	(291,888)	(114,906)
Acquisition of additional interest in subsidiaries	–	(17,083)
Purchase of property, plant and equipment	(7,398)	(15,369)
Proceeds on disposals of investments held-for-trading	297,058	118,519
Proceeds on disposal of investment property	8,830	–
(Increase) decrease in pledged bank deposits	(10,089)	12,540
Proceeds on disposal of property, plant and equipment and prepaid lease payments	–	2,259
Proceeds on redemption of bonds	629	2,110
Dividend received from investments held-for-trading	201	363
Interest received	902	878
Disposal of interest in subsidiaries	(54)	–
NET CASH USED IN INVESTING ACTIVITIES	(1,809)	(10,689)

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	2006 HK\$'000	2005 HK\$'000
FINANCING ACTIVITIES		
Interest paid	(1,464)	(2,115)
Repayment of bank borrowings	(6,500)	(16,695)
Dividends paid	(7,671)	(15,345)
Payment for repurchase of shares	(4,150)	(437)
Dividend paid to minority shareholders	(709)	(417)
Repayment of obligations under a finance lease	(135)	(195)
New bank borrowing raised	–	18,000
Proceeds from issue of new shares	–	2,979
	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(20,629)	(14,225)
	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,519	14,952
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	32,279	17,327
Effect of foreign exchange rate change	(22)	–
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, representing Bank balances and cash	63,776	32,279
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31st December, 2006

1. GENERAL

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

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

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has no material effect on how the results for the current and prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 4 (Amendments) Financial Guarantee Contracts which is effective for annual periods beginning on or after 1st January, 2006.

A financial guarantee contract is defined by HKAS 39 Financial Instruments: Recognition and Measurement as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

Prior to 1st January, 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4. Insurance Contracts and those contracts were disclosed as contingent liabilities. A provision for financial guarantee contract was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Notes to the Financial Statements

For the year ended 31st December, 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Financial guarantee contracts *(Cont'd)*

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

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

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 Economies 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
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ⁶
HK(IFRIC) – INT 12	Service Concession Arrangements ⁷

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.

⁶ Effective for annual periods beginning on or after 1st March, 2007.

⁷ Effective for annual periods beginning on or after 1st January, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Basis of consolidation

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

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

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

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

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

Goodwill

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill *(Cont'd)*

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

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

Revenue recognition

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

Rental income under operating leases is recognised on a straight line basis over the terms of the relevant leases.

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

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

Property, plant and equipment

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties

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

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Leasing

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

The Group as lessor

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

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

The Group as lessee

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

Foreign currencies

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

Notes to the Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies *(Cont'd)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

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

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Retirement benefit costs

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

Taxation

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

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

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

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

Inventories

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

Financial instruments

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

Notes to the Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Notes to the Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments (Cont'd)

Financial liabilities and equity (Cont'd)

Other financial liabilities

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

Equity instruments

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

Derivative financial instruments and hedging

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

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Derecognition

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Equity settled share-based payment transactions

Share options granted to employees of the Company

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

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

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately unless the relevant asset is carried at a revalued amount under another standard in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Notes to the Financial Statements

For the year ended 31st December, 2006

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31st December, 2006 was HK\$73,881,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 5% to 30% per annum or over the term of the lease, commencing from the date the assets is placed into productive use. The estimated useful life and dates that the Group places the assets into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Impairment on trade receivables

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

Impairment on inventories

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

Impairment on convertible notes receivables

The Group assesses periodically if the convertible loan receivables have suffered any impairment in accordance with the accounting policy stated in Note 3. The review requires an estimation of judgements based on financial position of the issuers and other relevant informations.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2006, the carrying amount of goodwill is HK\$3,561,000. Details of the recoverable amount calculation are disclosed in note 19.

Notes to the Financial Statements

For the year ended 31st December, 2006

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Income taxes

As at 31st December, 2006, a deferred tax asset of HK\$1,997,000 in relation to unused tax losses has been recognised in the Group's consolidated balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

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

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and obligations under finance leases. The interest rate and terms of repayment of bank borrowings and obligations under finance leases of the Group are disclosed in notes 28 and 29 respectively.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Notes to the Financial Statements

For the year ended 31st December, 2006

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Price risk

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

Liquidity risk

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

6. REVENUE

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

	2006 HK\$'000	2005 HK\$'000
Novelties and decorations products	139,369	141,656
Packaging products	152,720	150,457
PVC films and plastic materials	85,468	109,387
Toys products	161,318	114,375
	<hr/> 538,875	<hr/> 515,875

Notes to the Financial Statements

For the year ended 31st December, 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

2006

	Novelties and decorations products HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	139,369	152,720	85,468	161,318	–	538,875
Inter-segment sales	6,013	38,822	7,269	552	(52,656)	–
Total revenue	<u>145,382</u>	<u>191,542</u>	<u>92,737</u>	<u>161,870</u>	<u>(52,656)</u>	<u>538,875</u>
RESULT						
Segment result	<u>15,497</u>	<u>3,481</u>	<u>1,070</u>	<u>15,373</u>	<u>(1,399)</u>	34,022
Income from investments						5,993
Unallocated corporate income						1,112
Finance costs						<u>(1,464)</u>
Profit before tax						39,663
Income tax expenses						<u>(3,317)</u>
Profit for the year						<u>36,346</u>

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

For the year ended 31st December, 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

BALANCE SHEET

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

OTHER INFORMATION

	Novelties and decorations products HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	1,932	2,323	106	3,037	–	7,398
Depreciation of property, plant and equipment	4,959	8,091	56	5,822	–	18,928
Release of prepaid lease payments	–	–	–	76	–	76

Notes to the Financial Statements

For the year ended 31st December, 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

2005

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

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

For the year ended 31st December, 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

BALANCE SHEET

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

OTHER INFORMATION

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

Notes to the Financial Statements

For the year ended 31st December, 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(b) Geographical segments

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

	2006 HK\$'000	2005 HK\$'000
Sales revenue by geographical market:		
Hong Kong	262,139	316,879
Europe	103,363	110,738
America	89,473	46,016
Asia (other than Hong Kong)	81,877	39,100
Others	2,023	3,142
	538,875	515,875

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong	193,031	139,807	48	476
The People's Republic of China (the "PRC")	158,751	187,911	7,350	14,893
	351,782	327,718	7,398	15,369

8. OTHER EXPENSE

	2006 HK\$'000	2005 HK\$'000
Decrease in fair value of held-for-trading investments	159	880
Decrease in fair value of derivatives financial instruments	3,456	663
	3,615	1,543

Notes to the Financial Statements

For the year ended 31st December, 2006

9. FINANCE COSTS

Interest on:

Bank borrowings wholly repayable within five years
Other borrowings wholly repayable within five years
Finance lease wholly repayable within five years

2006	2005
HK\$'000	HK\$'000
1,098	1,864
363	239
3	12
1,464	2,115

10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

Release of prepaid lease prepayments (included in administrative expenses)

Impairment loss on trade receivables

Written down of inventories

Auditors' remuneration

Depreciation of property, plant and equipment

Foreign exchange losses, net

Staff costs (including directors' emoluments)

Share-based payments expenses

Cost of inventories recognised as an expense

2006	2005
HK\$'000	HK\$'000
76	77
557	321
8,832	1,996
665	1,140
18,928	20,337
6,002	2,488
112,357	88,611
1,323	1,497
282,922	295,732
and after crediting:	
902	708
201	363
–	207
8,800	2,808
–	500

and after crediting:

Interest income

Dividend income from investments held-for-trading

Gain on disposals of property, plant and equipment

Gain on disposals of investments held-for-trading

Reversal of impairment loss on investment in bonds

Notes to the Financial Statements

For the year ended 31st December, 2006

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eight directors were as follows:

Directors	Other emoluments			Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefit scheme contributions HK\$'000	
Poon Siu Chung	–	1,543	38	1,581
Leung Ying Wai, Charles	–	–	–	–
Ip Siu On	–	1,502	19	1,521
Tsui Yan Lee, Benjamin	–	1,598	18	1,616
Tong Wui Tung, Ronald	100	–	–	100
Ng Siu Yu, Larry	100	–	–	100
Lam Yat Cheong	50	–	–	50
Yip Chi Hung	100	–	–	100
	<u>350</u>	<u>4,643</u>	<u>75</u>	<u>5,068</u>
Total for 2006	350	4,643	75	5,068

The emoluments paid or payable to each of the eight directors were as follows:

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

Notes to the Financial Statements

For the year ended 31st December, 2006

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Cont'd)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, three (2005: three) were directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2005: two) individuals were as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	2,036	1,419
Retirement benefit schemes contributions	27	16
	<hr/> 2,063 <hr/>	<hr/> 1,435 <hr/>

Their emoluments were within the following bands:

	2006 Number of employees	2005 Number of employees
Nil – HK\$1,000,000	1	2
HK\$1,000,001– HK\$1,500,000	1	–
	<hr/> 2 <hr/>	<hr/> 2 <hr/>

Notes to the Financial Statements

For the year ended 31st December, 2006

12. INCOME TAX EXPENSES

	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax		
Current year	3,697	1,033
Underprovision in prior years	42	1,392
	<u>3,739</u>	<u>2,425</u>
Deferred tax (Note 30)		
Current year	(422)	557
	<u>3,317</u>	<u>2,982</u>

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

	2006 HK\$'000	2005 HK\$'000
Profit before tax	<u>39,663</u>	<u>14,465</u>
Tax at Hong Kong Profits Tax of 17.5%	6,841	2,531
Tax effect of income not taxable for tax purposes	(4,893)	(3,300)
Tax effect of expenses not deductible for tax purposes	616	2,532
Tax effect on temporary differences not recognised	1,613	–
Utilisation of tax losses not previously recognised	(1,363)	(552)
Tax effect on tax losses not recognised	417	40
Underprovision in prior year	42	1,392
Others	44	339
	<u>3,317</u>	<u>2,982</u>
Tax charge for the year		

Notes to the Financial Statements

For the year ended 31st December, 2006

13. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim, paid – HK1.0 cent (2005: HK0.5 cent) per share	3,049	1,557
Final, paid – HK1.5 cents per share for 2005 (2005: HK4.5 cents per share for 2004)	4,622	13,788
	7,671	15,345

A final dividend of HK5.5 cents (2005: HK1.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the net profit for the year of approximately HK\$33,763,000 (2005: HK\$10,701,000) and the following data:

	2006	2005
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	306,615,469	308,833,859
Effect of dilutive potential ordinary shares on share options	531,265	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	307,146,734	308,833,859

Notes to the Financial Statements

For the year ended 31st December, 2006

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Factory premises	Furniture, fixtures and office equipment	Plant, machinery and moulds	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST						
At 1st January, 2005	2,165	38,007	30,303	203,821	4,579	278,875
Additions	–	942	1,532	11,986	909	15,369
Reclassification	(173)	173	775	(775)	–	–
Disposals	(1,802)	–	–	(163)	(973)	(2,938)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st December, 2005 and 1st January, 2006	190	39,122	32,610	214,869	4,515	291,306
Additions	–	545	1,185	5,461	207	7,398
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st December, 2006	190	39,667	33,795	220,330	4,722	298,704
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
DEPRECIATION AND AMORTISATION						
At 1st January, 2005	482	20,113	20,519	142,188	3,727	187,029
Provided for the year	24	1,872	3,822	14,028	591	20,337
Eliminated on disposals	(439)	–	–	(89)	(943)	(1,471)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st December, 2005 and 1st January, 2006	67	21,985	24,341	156,127	3,375	205,895
Provided for the year	2	2,863	2,117	13,396	550	18,928
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st December, 2006	69	24,848	26,458	169,523	3,925	224,823
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CARRYING VALUES						
At 31st December, 2006	121	14,819	7,337	50,807	797	73,881
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st December, 2005	123	17,137	8,269	58,742	1,140	85,411
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes to the Financial Statements

For the year ended 31st December, 2006

15. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

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

Buildings	2%
Factory premises	5%
Furniture, fixtures and office equipment	15-20%
Plant, machinery and moulds	10-20%
Motor vehicles	25-30%

The Group has not obtained Certificate for Housing Ownership in respect of the Group's factory premises with an aggregate net book value of approximately HK\$14,819,000 (2005: HK\$17,137,000) at 31st December, 2006.

The carrying value of plant and machinery includes an amount of approximately HK\$Nil (2005: HK\$297,000) in respect of assets held under a finance lease.

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

Medium-term leasehold land in Hong Kong
Medium-term leasehold land in PRC

Analysed for reporting purposes as:

Current asset
Non-current asset

2006 HK\$'000	2005 HK\$'000
59	61
300	374
359	435
75	69
284	366
359	435

Notes to the Financial Statements

For the year ended 31st December, 2006

17. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1st January, 2005	4,300
Net increase in fair value recognised in the consolidated income statement	<u>4,040</u>
At 31st December, 2005 and 1st January, 2006	8,340
Disposal	<u>(8,340)</u>
At 31st December, 2006	<u>—</u>

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

18. GOODWILL

	HK\$'000
COST	
At 1st January, 2006 and 31st December, 2006	<u>5,642</u>
IMPAIRMENT	
At 1st January, 2006	1,760
Impairment loss recognised for the year	<u>321</u>
At 31st December, 2006	<u>2,081</u>
CARRYING VALUES	
At 31st December, 2006	<u>3,561</u>
At 31st December, 2005	<u>3,882</u>

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

Notes to the Financial Statements

For the year ended 31st December, 2006

19. IMPAIRMENT TESTING ON GOODWILL

As explained in Note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 18 have been allocated to three individual cash generating units (CGUs). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31st December, 2006 allocated to these units are as follows:

	Goodwill HK\$'000
Packaging products segment	
– Perfectech Paper Products Company Limited (“Paper”)	–
Toys Products Segment	
– Perfectech International Manufacturing Limited	
• Toys Sub-segment (“Toy”)	1,927
(including Asia Rich (Far East) Limited, Beyond Growth International Limited, Dream Creation Limited, Golden Enterprise Holding Limited and Yu-Me (H.K.) Limited)	
• Moulds Sub-segment (“Moulds”)	1,634
(Shouji Tooling Factory Limited)	
	<hr/>
	3,561

Paper and Moulds

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 10-year period, and a discount rate of 6%. Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Since a shortfall of HK\$321,000 is expected from the calculation for paper CGUs, impairment loss is recognised in the profit and loss for the year.

Toys

The recoverable amount of Toys has been determined based on a value on use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 10 year period, and discount rate of 6%. Cash flow projections during the budget period for the CGUs are based on expected gross margins and expected expenditure during the budget period.

Notes to the Financial Statements

For the year ended 31st December, 2006

20. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Raw materials	41,690	56,279
Work in progress	4,546	4,100
Finished goods	27,934	33,106
	<hr/> 74,170 <hr/>	<hr/> 93,485 <hr/>

21. TRADE AND OTHER RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Trade receivables	105,794	89,387
Less: Impairment loss on trade receivables	(11,481)	(10,924)
	<hr/> 94,313 <hr/>	<hr/> 78,463 <hr/>
Prepayment and other receivables	8,449	3,787
	<hr/> 102,762 <hr/>	<hr/> 82,250 <hr/>

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

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

	2006 HK\$'000	2005 HK\$'000
0 – 60 days	58,013	48,281
61 – 90 days	9,966	13,147
91 – 120 days	13,448	10,114
Over 120 days	12,886	6,921
	<hr/> 94,313 <hr/>	<hr/> 78,463 <hr/>

The fair value of the Group's trade and other receivables at 31st December, 2006 approximate to the corresponding carrying amount.

Notes to the Financial Statements

For the year ended 31st December, 2006

22. OTHER FINANCIAL ASSETS

Amount due from a minority shareholder of a subsidiary

The amount is non-interest bearing, unsecured and repayable on demand. The fair value of the balance at 31st December, 2006 approximate to its corresponding carrying amounts.

Bank balance and cash

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 3.37% to 4.87% (2005: 1.75% to 3.85%) with an original maturity of three months or less. The fair value of these assets at 31st December, 2006 approximates to the corresponding carrying amounts.

23. INVESTMENT IN BONDS

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

24. INVESTMENTS HELD-FOR-TRADING

Investments held-for-trading include:

	2006 HK\$'000	2005 HK\$'000
Equity securities listed in Hong Kong	4,198	8,451
Unlisted debt securities	7,724	–
	11,922	8,451

The fair values of the held-for-trading investments are determined based on the quoted market bid prices available on the relevant exchanges or relevant investments issuers.

Notes to the Financial Statements

For the year ended 31st December, 2006

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2006 HK\$'000	2005 HK\$'000
Financial assets		
Foreign currency forward contracts	715	350
Financial liabilities		
Listed equity and foreign currency forward contracts	(3,821)	–
	<u>(3,106)</u>	<u>350</u>

At 31st December, 2006, the major terms of the listed equity and foreign currency forward contracts are as follows:

Notional amount	Underlying securities	Maturity	Forward Price
HK\$13,399,920	HSBC Holdings plc	7th November, 2007	HK\$142.18
HK\$26,280,000	HSBC Holdings plc	13th November, 2007	HK\$142.08
HK\$11,700,000	US Dollar/Renminbi	10th July, 2007	HK\$8.00
HK\$7,800,000	US Dollar/HK Dollar	15th November, 2007	HK\$7.729
HK\$7,800,000	US Dollar/HK Dollar	15th April, 2008	HK\$7.685

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

26. PLEDGED BANK DEPOSITS

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

The deposits carry variable interest rate ranging from 3.37% to 4.87% (2005: 1.75% to 3.85%). The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31st December, 2006 approximates to the corresponding carrying amount.

Notes to the Financial Statements

For the year ended 31st December, 2006

27. TRADE AND OTHER PAYABLES

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

	2006 HK\$'000	2005 HK\$'000
0 – 60 days	21,888	24,725
61 – 90 days	4,724	4,367
91 – 120 days	1,084	632
Over 120 days	953	339
	<hr/> 28,649 <hr/>	<hr/> 30,063 <hr/>

The fair value of the Group's trade and other payables at 31st December, 2006 approximates to the corresponding carrying amount.

28. BANK BORROWINGS

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

	2006 HK\$'000	2005 HK\$'000
Within one year	–	6,000
In the second year	–	500
	<hr/>	<hr/>
	–	6,500
Less: Amount due within one year shown under current liabilities	–	(6,000)
	<hr/>	<hr/>
	–	500

The bank loans are variable-rate borrowings which carry interest ranging from 4.44% to 7.75% (2005: 4.44% to 7.75% per annum).

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

During the year, the Group repaid all loans.

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

Notes to the Financial Statements

For the year ended 31st December, 2006

29. OBLIGATIONS UNDER A FINANCE LEASE

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

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<i>Amounts payable under a finance lease:</i>				
Within one year	-	138	-	135
In more than one year but not more than two years	-	-	-	-
	-	138	-	135
Less: Future finance charges	-	(3)	-	-
Present value of lease obligations	-	135	-	135
Less: Amount due for settlement within 12 months			-	(135)
Amount due for settlement after 12 months			-	-

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

Notes to the Financial Statements

For the year ended 31st December, 2006

30. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	Revaluation of investment properties HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January, 2005	3,943	(250)	(2,290)	1,403
Charge (credit) to income for the year	9	707	(159)	557
At 31st December, 2005 and 1st January, 2006	3,952	457	(2,449)	1,960
Charge (credit) to income for the year	(417)	(457)	452	(422)
At 31st December, 2006	3,535	–	(1,997)	1,538

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

	2006 HK\$'000	2005 HK\$'000
Deferred tax liabilities	2,950	3,022
Deferred tax assets	(1,412)	(1,062)
	1,538	1,960

At the balance sheet date, the Group has unused tax losses of approximately HK\$21,170,000 (2005: HK\$27,079,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$11,550,000 (2005: HK\$13,994,000) of such losses. No deferred tax has been recognised in respect of the remaining HK\$9,620,000 (2005: HK\$13,085,000) due to the unpredictability of future profit streams.

Notes to the Financial Statements

For the year ended 31st December, 2006

31. SHARE CAPITAL

	Authorised		Issued and fully paid	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Ordinary shares of HK\$0.10 each				
At beginning of the year	700,000	700,000	31,054	30,640
Exercise of share options	–	–	–	490
Share repurchased and cancelled (Note 1)	–	–	(738)	(76)
At end of the year	700,000	700,000	30,316	31,054

note 1: During the year, the Company repurchased its own shares through the Stock Exchange as follows:

	No. of shares of HK\$0.10 each	Price per share		Aggregate
		Highest HK\$	Lowest HK\$	Consideration Paid HK\$
Month of repurchase				
January 2006	350,000	0.540	0.530	188,552
February 2006	430,000	0.530	0.510	226,891
March 2006	1,592,000	0.550	0.480	805,985
May 2006	624,000	0.530	0.510	323,684
June 2006	910,000	0.520	0.510	472,414
July 2006	1,060,000	0.550	0.530	579,835
August 2006	764,000	0.550	0.550	423,634
November 2006	1,650,000	0.700	0.650	1,129,685
	7,380,000			4,150,680

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

32. DISPOSAL OF INTEREST IN SUBSIDIARIES

On August 2006, the Group disposed of 20% equity interest in Mars Technology Limited ("Mars"), which has various subsidiaries, at a consideration of HK\$1,000,000. Upon the completion of the disposal, the Group's equity interest in Mars was reduced from 100% to 95.3%. The disposal generated a gain on disposal of interest in subsidiaries of approximately HK\$54,000 to the Group.

Notes to the Financial Statements

For the year ended 31st December, 2006

33. PLEDGE OF ASSETS

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

- (i) Investment held-for-trading with a carrying value of approximately HK\$11,922,000 (2005: 2,915,000); and
- (ii) Bank balances and cash of approximately HK\$18,813,000 (2005: HK\$8,724,000).

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

34. OPERATING LEASES

The Group as lessee

	2006 HK\$'000	2005 HK\$'000
Minimum lease payments paid under operating leases during the year		
Rented premises	4,437	10,713
Plant and machinery	3,451	–
	7,888	10,713

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

	2006 HK\$'000	2005 HK\$'000
Within one year	7,748	4,939
In the second to fifth years inclusive	14,367	7,207
Over five years	37,666	33,198
	59,781	45,344

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

Notes to the Financial Statements

For the year ended 31st December, 2006

34. OPERATING LEASES (Cont'd)

The Group as lessor

Property rental income earned from investment properties of the Group during the year was approximately HK\$61,000 (2005: HK\$378,000), less negligible outgoings.

At 31st December, 2006, the Group had contracted with tenants for future minimum lease receipts, expiring within one year, amounting to approximately HK\$23,000 (2005: Nil).

35. CAPITAL COMMITMENTS

	The Group	
	2006 HK\$'000	2005 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>392</u>	<u>34</u>
Capital expenditure in respect of the acquisition of property, Plant and equipment authorised for but not contracted for	<u>288</u>	<u>–</u>

36. OTHER COMMITMENTS

At 31st December, 2006, the Group carried outstanding forward contracts which entailed a commitment for purchase of equity shares of notional amount of approximately HK\$36,267,000 (2005: HK\$27,963,000) as disclosed in note 25.

In the opinion of the directors, the commitments will be settled monthly with an amount ranging from approximately HK\$2 million to HK\$4 million. All acquired listed securities are for trading purposes and will be disposed shortly and the proceeds of which will mainly be used to finance the purchase of listed securities being committed in accordance with the forward contracts. Hence, the commitments are not expected to have a material impact on the overall cash flow of the Group.

Notes to the Financial Statements

For the year ended 31st December, 2006

37. 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 has filed a defence and counterclaim against the Subsidiary for wages and other payments allegedly payable upon their termination of employment with the Subsidiary amounting to approximately HK\$419,000 together with interest and costs. The directors of the Company take the views that the amount of their claims against the Defendants well exceed the Defendants' claims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

(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 no loans were drawn down at the balance sheet date.

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.

38. SHARE-BASED PAYMENT TRANSACTIONS

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

38. SHARE-BASED PAYMENT TRANSACTIONS *(Cont'd)*

At the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 17,000,000, representing approximately 5.6% of the shares of the Company in issue at that date.

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

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

Total consideration received during the year from a director and employees for taking up the options granted during the year is nil (2005: HK\$2,979,000).

All options were vested on the date of grant.

The exercise price is determined by the board of directors of the Company and will be at least the highest of the followings:

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

Notes to the Financial Statements

For the year ended 31st December, 2006

38. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

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

	Option type	At 1.1.2005	Number of share options				
			Granted during the year	Exercised during the year	At 31.12.2005 & 1.1.2006	Granted during the year	At 31.12.2006
Directors	B	–	6,000,000	–	6,000,000	–	6,000,000
Employees	B	–	4,900,000	(4,900,000)	–	–	–
	C	–	–	–	–	9,000,000	9,000,000
		–	4,900,000	(4,900,000)	–	9,000,000	9,000,000
Others	A	1,000,000	–	–	1,000,000	–	1,000,000
	B	–	1,000,000	–	1,000,000	–	1,000,000
		1,000,000	1,000,000	–	2,000,000	–	2,000,000
Total		1,000,000	11,900,000	(4,900,000)	8,000,000	9,000,000	17,000,000

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
A	5th June, 2002	5th July, 2002 – 17th May, 2012	0.664
B	2nd February, 2005	2nd May, 2005 – 31st December, 2014	0.608
C	24th March, 2006	24th April, 2006 – 31st December, 2014	0.540

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.

Notes to the Financial Statements

For the year ended 31st December, 2006

38. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

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

Date of grant	Number of shares issuable under options granted	Option value	Closing share price at date of grant	Risk free rate	Expected volatility – Note (i)	Expiration of the options	Expected ordinary dividend note (iii)
				(being the yield of 10-year exchange fund Notes)			
24th March, 2006	9,000,000	HK\$1,323,000	HK\$0.52	4.54%	41.68%	31st December, 2014	5.29%

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

During the year ended 31st December, 2006, options were granted on 24th March, 2006. The estimate fair value of the options granted are HK\$1,323,000.

39. RETIREMENT BENEFITS SCHEME

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

39. RETIREMENT BENEFITS SCHEME *(Cont'd)*

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

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in future years, was nil (2005: HK\$5,000).

The total cost charged to income of approximately HK\$621,000 (2005: HK\$687,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

40. POST BALANCE SHEET EVENT

Subsequent to year end, the Company has purchased 1,200,000 Shares of its own shares through the Stock Exchange:

Month of Repurchase	No. of shares of HK\$0.10 each	Price per share		Aggregate consideration
		Highest HK\$	Lowest HK\$	paid HK\$
March 2007	1,200,000	0.870	0.790	970,480

41. RELATED PARTY TRANSACTIONS

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

	2006 HK\$'000	2005 HK\$'000
Rental expenses paid to:		
Nice Step Investment Limited (Note)	1,144	999
Mr. Poon Siu Chung	168	168

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

Notes to the Financial Statements

For the year ended 31st December, 2006

41. RELATED PARTY TRANSACTIONS *(Cont'd)*

- (b) Compensation of key management personnel

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

	2006 HK\$'000	2005 HK\$'000
Short-term benefits	6,052	6,918
Post-employment benefits	120	120
Share-based payments	–	969
	<hr/> 6,172 <hr/>	<hr/> 8,007 <hr/>

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

Notes to the Financial Statements

For the year ended 31st December, 2006

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/registered capital held by the Company		Paid up issued/registered ordinary share capital	Principal activities
		Directly	Indirectly		
Benefit International Packing Materials Limited	Hong Kong	–	100%	HK\$10,000	Trading of PVC films
Benefit Packing Materials Limited	Hong Kong	–	75%	HK\$1,000,000	Trading of PVC films
Beyond Growth International Limited	Hong Kong	–	95.3%	HK\$100,000	Manufacture and sales of toys
Dream Creation Limited	Hong Kong	–	95.3%	HK\$2	Investment holding and distribution of toys
Golden Enterprise Holdings Limited	Hong Kong	–	100%	HK\$2	Distribution of toys
珠海市多發塑膠製品有限公司	The PRC	–	100%	RMB530,600	Trading of novelties and festival decorations products
iTech Limited	Hong Kong	–	100%	HK\$2	Investment holding
Leader Stationery & Gifts Manufacturing Company Limited	Hong Kong	–	80%	HK\$1,000,000	Manufacturing of stationery products
Link Faith Company Limited	Hong Kong	–	100%	HK\$100,000	Securities investment

Notes to the Financial Statements

For the year ended 31st December, 2006

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

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

Notes to the Financial Statements

For the year ended 31st December, 2006

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

43. BALANCE SHEET INFORMATION OF THE COMPANY

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

	2006 HK\$'000	2005 HK\$'000
Unlisted investments in subsidiaries	32,061	32,061
Deferred tax assets	211	424
Bank balance and cash	99	70
Other current assets	124,744	133,031
Current liability	(123)	(100)
	<hr/>	<hr/>
Net assets	156,992	165,486
	<hr/>	<hr/>
Share capital (Note 31)	30,316	31,054
Reserves	125,676	134,432
	<hr/>	<hr/>
Total equity	156,992	165,486
	<hr/>	<hr/>

Profit of the Company for 2006 amounted to HK\$1.0 million (2005: loss of HK\$1.1 million).

Financial Summary

RESULTS

	Year ended 31st December,				2006 HK\$'000
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000 (as restated)	2005 HK\$'000	
Revenue	317,256	315,357	509,820	515,875	538,875
Profit before tax	33,045	19,901	27,180	14,465	39,663
Income tax expenses	(3,136)	(1,903)	(1,884)	(2,982)	(3,317)
Profit for the year	<u>29,909</u>	<u>17,998</u>	<u>25,296</u>	<u>11,483</u>	<u>36,346</u>
Attributable to:					
Equity holders of the company	29,787	18,175	22,537	10,701	33,763
Minority interests	122	(177)	2,759	782	2,583
Profit for the year	<u>29,909</u>	<u>17,998</u>	<u>25,296</u>	<u>11,483</u>	<u>36,346</u>

ASSETS AND LIABILITIES

	As at 31st December,				2006 HK\$'000
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000 (as restated)	2005 HK\$'000	
Total assets	254,827	333,552	341,259	327,718	351,782
Total liabilities	(26,901)	(83,104)	(62,802)	(60,250)	(59,251)
Total equity	<u>227,926</u>	<u>250,448</u>	<u>278,457</u>	<u>267,468</u>	<u>292,531</u>
Minority interests	2,248	14,711	17,470	6,073	7,893
Equity attributable to equity holders of the company	<u>225,678</u>	<u>235,737</u>	<u>260,987</u>	<u>261,395</u>	<u>284,638</u>
Total equity	<u>227,926</u>	<u>250,448</u>	<u>278,457</u>	<u>267,468</u>	<u>292,531</u>

Note:

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