

# PERFECTECH INTERNATIONAL HOLDINGS LIMITED

(威發國際集團有限公司)\*

(incorporated in Bermuda with limited liability)

(Stock Code: 765)

## Announcement of results For the year ended 31st December, 2006

### RESULTS

The directors of Perfectech International Holdings Limited (the “Company”) are pleased to announce that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2006 and the comparative figures in 2005 were as follows:–

### CONSOLIDATED INCOME STATEMENT

For the year ended 31st December,

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue	3	538,875	515,875
Cost of sales		<u>(442,297)</u>	<u>(442,747)</u>
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	4	(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	5	<u>(1,464)</u>	<u>(2,115)</u>
Profit before tax	6	39,663	14,465
Income tax expenses	7	<u>(3,317)</u>	<u>(2,982)</u>
Profit for the year		<u><u>36,346</u></u>	<u><u>11,483</u></u>
Attributable to:			
Equity holders of the parent		33,763	10,701
Minority interests		<u>2,583</u>	<u>782</u>
Profit for the year		<u><u>36,346</u></u>	<u><u>11,483</u></u>
Dividends	8	<u><u>7,671</u></u>	<u><u>15,345</u></u>
Earnings per share	9		
Basic		<u><u>11.01 Cents</u></u>	<u><u>3.46 Cents</u></u>
Diluted		<u><u>10.99 Cents</u></u>	<u><u>N/A</u></u>

**CONSOLIDATED BALANCE SHEET**

At 31st December,

	<i>Notes</i>	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>73,881</b>	85,411
Prepaid lease payments		<b>284</b>	366
Investment properties		–	8,340
Goodwill		<b>3,561</b>	3,882
Deferred tax assets		<b>1,412</b>	1,062
		<b>79,138</b>	99,061
<b>CURRENT ASSETS</b>			
Inventories		<b>74,170</b>	93,485
Trade and other receivables	10	<b>102,762</b>	82,250
Prepaid lease payments		<b>75</b>	69
Amount due from a minority shareholder of a subsidiary		<b>175</b>	200
Tax recoverable		<b>236</b>	2,220
Investment in bonds		–	629
Investments held-for-trading		<b>11,922</b>	8,451
Derivative financial instruments		<b>715</b>	350
Pledged bank deposits		<b>18,813</b>	8,724
Bank balances and cash		<b>63,776</b>	32,279
		<b>272,644</b>	228,657
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	<b>49,755</b>	49,773
Derivative financial instruments		<b>3,821</b>	–
Tax liabilities		<b>2,725</b>	820
Bank borrowings – due within one year		–	6,000
Obligations under a finance lease – due within one year		–	135
		<b>56,301</b>	56,728
<b>NET CURRENT ASSETS</b>		<b>216,343</b>	171,929
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>295,481</b>	270,990
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>2,950</b>	3,022
Bank borrowings - due after one year		–	500
		<b>2,950</b>	3,522
<b>NET ASSETS</b>		<b>292,531</b>	267,468
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>30,316</b>	31,054
Reserves		<b>254,322</b>	230,341
Equity attributable to equity holders of the parent		<b>284,638</b>	261,395
Minority interests		<b>7,893</b>	6,073
<b>TOTAL EQUITY</b>		<b>292,531</b>	267,468

Notes:

## 1. BASIC OF PREPARATION

The audited consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

## 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 Contract and those contracts were disclosed as contingent liabilities. A provision for financial guarantee 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.

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 <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>6</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>7</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1st November, 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1st March, 2007.

<sup>7</sup> Effective for annual periods beginning on or after 1st January, 2008.

### 3. 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 <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE						
External sales	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.

#### BALANCE SHEET

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

*OTHER INFORMATION*

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

2005

	Novelties and decorations products <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE						
External sales	141,656	150,457	109,387	114,375	-	515,875
Inter-segment sales	<u>533</u>	<u>32,397</u>	<u>4,884</u>	<u>3,058</u>	<u>(40,872)</u>	<u>-</u>
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.

*BALANCE SHEET*

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

**(b) Geographical segments**

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

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

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	
	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong	<b>193,031</b>	139,807	<b>48</b>	476
The People's Republic of China (the "PRC")	<b>158,751</b>	187,911	<b>7,350</b>	14,893
	<u><b>351,782</b></u>	<u>327,718</u>	<u><b>7,398</b></u>	<u>15,369</u>

**4. OTHER EXPENSE**

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Decrease in fair value of held-for-trading investments	<b>159</b>	880
Decrease in fair value of derivatives	<b>3,456</b>	663
	<u><b>3,615</b></u>	<u>1,543</u>

## 5. FINANCE COSTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	1,098	1,864
Other borrowings wholly repayable within five years	363	239
Finance lease wholly repayable within five years	3	12
	<u>1,464</u>	<u>2,115</u>

## 6. PROFIT BEFORE TAX

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit before tax has been arrived at after charging:		
Release of prepaid lease prepayments (included in administrative expenses)	76	77
Impairment loss on trade receivables	557	321
Written down of inventories	8,832	1,996
Auditors' remuneration	665	1,140
Depreciation of property, plant and equipment	18,928	20,337
Foreign exchange losses, net	6,002	2,488
Staff costs (including directors' emoluments)	112,357	88,611
Share-based payments expenses	1,323	1,497
Cost of inventories recognised as an expense	282,922	295,732
and after crediting:		
Interest income	902	708
Dividend income from investments held-for-trading	201	363
Gain on disposals of property, plant and equipment	–	207
Gain on disposals of investments held-for-trading	8,800	2,808
Reversal of impairment loss on investment in bonds	–	500
	<u>–</u>	<u>500</u>

## 7. INCOME TAX EXPENSES

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
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		
Current year	(422)	557
	<u>3,317</u>	<u>2,982</u>

## 8. DIVIDENDS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
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)	<u>4,622</u>	<u>13,788</u>
	<u><u>7,671</u></u>	<u><u>15,345</u></u>

The 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.

## 9. 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
<b>Number of shares</b>		
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	<u>531,265</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><u>307,146,734</u></u>	<u><u>308,833,859</u></u>

## 10. TRADE AND OTHER RECEIVABLES

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

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

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

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

## 11. TRADE AND OTHER PAYABLES

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
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
	<u>28,649</u>	<u>30,063</u>

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

## 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.

## 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>

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2006, the Company has complied with comply with the code provisions (the "Code Provisions") set out in the "Code on Corporate Governance Practices" (the "Code") issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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.

### AUDIT COMMITTEE

The Company has established an audit committee which comprises all non-executive Directors, Mr. Tong Wui Tung, Ronald, Mr. Yip Chi Hung, Mr. Lam Yat Cheong and Mr. Ng Siu Yu, Larry. Mr. Ng Siu Yu, Larry is the chairman of the audit committee.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing internal controls and financial reporting matters including the review of the audited financial statements for the year ended 31st December, 2006 of the Company now reported on.

## **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

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

*\* for identification purpose only*

Please also refer to the published version of this announcement in The Standard.