Annual Report 2007

Perfectech

Perfectech International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 765)

Contents

Corporate Information

Board of Directors

Executive Directors:

Mr. Poon Siu Chung
(Chairman and Managing Director)
Mr. Leung Ying Wai, Charles
(Deputy Chairman)
Mr. Ip Siu On
Mr. Tsui Yan Lee, Benjamin

Non-executive Director:

Mr. Tong Wui Tung, Ronald (retired on 31 May 2007)

Independent Non-executive Directors:

Mr. Ng Siu Yu, Larry (retired on 31 May 2007)
Mr. Lam Yat Cheong
Mr. Yip Chi Hung
Mr. Choy Wing Keung, David (appointed on 31 May 2007)

Company secretary

Ms. Pang Siu Yin

Auditors

HLM & Co.
Certified Public Accountants
Hong Kong

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

Tricor Standard 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 Lavender Room, 27th Floor, The Park Lane Hong Kong, 310 Gloucester Road, Causeway Bay, Hong Kong on 27 May 2008 at 3:00 p.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 31 December 2007.

2. To declare a final dividend of 3.5 cents per share.

3. To re-elect the retiring Directors.

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

5. To re-appoint Messrs. 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):

6. "**THAT**

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

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

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

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

Notice of Annual General Meeting

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

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

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

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

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

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

(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."

Notice of Annual General Meeting

8. "**THAT**, subject to the availability of unissued share capital and conditional upon the resolutions nos. 6 and 7 above being passed, the number of Shares which are repurchased by the Company pursuant to and in accordance with resolution no. 7 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. 6 above."

By order of the Board
Poon Siu Chung
Chairman & Managing Director

Hong Kong, 25 April 2008

Notes:

1. The Hong Kong Branch Register of Members of the Company will be closed from 26 May 2008 to 27 May 2008, 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 27 May 2008, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 May 2008.

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 2007 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, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the Annual General Meeting or any adjournment thereof.

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

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. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David as independent non-executive Directors.

Chairman's Statement

FINAL DIVIDEND

The Directors recommend the payment of a final dividend for the year ended 31 December 2007 of 3.5 cents per share (2006: 5.5 cents per share) payable to shareholders on the register of members of the Company (the "Register of Members") on 27 May 2008. This dividend together with the interim dividend of 2.5 cents per share (2006: 1 cent per share), will make a total of 6.0 cents per share for the year (2006: 6.5 cents per share). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on or about 12 June 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 26 May 2008 to 27 May 2008, 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 Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 23 May 2008.

BUSINESS REVIEW

During the year, the turnover of the Group decreased by approximately 3% to approximately HK$524,950,000, while the net profit for the year was approximately HK$32,207,000 representing a decrease of approximately 5%. The slight decrease in turnover was mainly due to the prudent policy of the Group aiming at maximizing profits rather than boosting revenue.

To the Group, the year of 2007 is quite a challenging year. The net profit of the Group dropped slightly by 5% to approximately HK$32,207,0000. The contributions from the four segments dropped by about 18% to approximately to HK$27,862,000, while the income from investments increased by about 76% to approximately HK$10,566,000. The performance of each segment will be further discussed below.

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.

For the year 2007, the profits of the Group included gain on disposal of investments held-for-trading of approximately HK$28,267,000, and after the deduction of (i) decrease in the fair value of derivative financial instruments of approximately HK$26,082,000, which were held by the Group for investment and hedging purposes, of which approximately HK$5,811,000 were realized loss as stated in the profit warning announcement of the Company dated 22 February 2008 (the "Announcement"), (ii) decrease in the fair value of investments held-for-trading of approximately HK$1,738,000, (iii) a share related payment on the share options granted to employees of approximately HK$2,143,000, and (iv) an impairment loss on goodwill of approximately HK$175,000.

Finance costs decreased by about 57% to approximately HK$624,000.

FUTURE PLAN & PROSPECT

For the year 2008, globally, economic atmosphere becomes uncertain and volatile as impacted by the potential economic recession of the US economy as a result of the subprime mortgage crisis. Locally, the cost of production in the PRC will continually increase as a result of the launch of new labour contract law in the mainland and increase of raw materials prices. Coupled with the appreciation of the currency of Renminbi and the keen competition in various segments, the Group will face more challenges in the coming year.

Chairman's Statement

As stated in the Announcement, the Group's results for the financial year ending 31 December 2008 is expected to be adversely affected as a result of the loss arising from certain structured product contracts entered into by the Group with a bank to minimise its potential foreign exchange risk exposure to appreciation of Renminbi. The realized loss of approximately US$745,000 (equivalent to approximately HK$5,811,000) has been included in the profit and loss account of the Group for the year ended 31 December 2007. Unless there is a material drop of Renminbi exchange rate in the next three months, based on the information currently available, it is expected the loss to be incurred therefrom for the year ending 31 December 2008 will not exceed approximately US$5,353,000 (equivalent to approximately HK$41,753,000).

Looking ahead, 2008 will not be an easy year to the Group. Nevertheless, the Directors will try every effort to improve efficiencies and cost-benefits, and the Company will continue to concentrate on improving its profitable core businesses and developing those businesses potentially profitable.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENT RESULTS

Novelties and decorations

The turnover of this segment for the year showed a slight drop of about 6% and stood at approximately HK$130,498,000, while the segment result also decreased by about 14% to approximately HK$13,304,000. The result of the segment increased substantially due to (a) the Group's policy of raising the selling price to improve profit margin instead of cutting price to boost the revenue and (b) increase of productivity as a result of incentive given to labours, as stated in the last annual report of the Company.

Packaging products

The turnover of packaging products to external customers dropped quite substantially by about 18% to approximately HK$124,985,000, while the segment result also incurred a loss of approximately HK$1,676,000. The Group has abandoned the production line of PVC blister and changed the product mix in the segment gradually. However, due to the keen competition in paper products markets, this segment recorded a negative contribution as a result of increase in production costs as stated above.

Trading activities

The turnover of the trading of PVC film and plastic materials increased by about 20% to approximately HK$102,479,000. However, as a result of keen competition in the market, the segment recorded a loss of approximately HK$91,000 for the year.

Toy products

The turnover of this segment increased gently by about 4% to approximately HK$166,988,000, while the segment result therefrom was approximately HK$17,594,000, representing a growth of about 14%. Improvement in contribution of the segment was a result of further improvement in efficiencies and cost savings measures.

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$11,147,000.

Chairman's Statement

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 its factories are located in the PRC, and expenses incurred 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 31 December 2007, the long-term finance lease obligation and bank loan of the Group were nil (2006: nil), while the short term bank borrowings were nil (2006: nil), and none of the Group's plant and machinery of (2006: nil) was held under a finance lease. The gearing ratio, measured by total bank and other borrowings divided by equity, of the Group was nil (2006: nil).

At balance sheet date, the Group had bank balances and cash of approximately HK$53,400,000 (2006: HK$63,776,000).

With cash and other current assets at 31 December 2007 of approximately HK$321,388,000 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 31 December 2007 was approximately HK$0.97 per share based on the actual number of 299,753,607 shares in issue on that date.

Employees and remuneration policies

As at 31 December 2007, the Group employed approximately 3,000 full time employees. The Group remunerates its employees largely based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

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, 15 April 2008

Biographical Details of Directors and Senior Management Staff

DIRECTORS

Executive Directors

Mr. POON Siu Chung, aged 58, 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 58, is the Deputy Chairman 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 54, 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 48, 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.

Independent non-executive Directors

Mr. LAM Yat Cheong, aged 47, 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.

Mr. YIP Chi Hung, aged 49, 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.

Mr. CHOY Wing Keung, David, aged 42, graduated from the Hong Kong Shue Yan University and is the sole proprietor of David Choy & Co., Certified Public Accountants (Practising). He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Certified Chartered Accountants. He has over 18 years of experience in the areas of auditing, accounting, secretarial services and taxation.

Biographical Details of Directors and Senior Management Staff

SENIOR MANAGEMENT

Mr. FUNG Kun Kwai, aged 54, 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 42, is the Group's financial controller. Mr. Yuen is a member of the Hong Kong Institute of Certified Public Accountant and the Association of Chartered Certified Accountants. He is responsible for the overall supervision on the accounting and finance functions of the Group. Mr. Yuen holds a diploma in accounting from 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 31 December 2007, 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 conductive 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;

Corporate Governance Report

- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies.

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

Board Composition

The Board comprises 7 Directors, 4 of whom are Executive Directors and 3 being Independent Non-Executive Directors ("INEDs"). During the year, the composition of the Board has undergone the following changes:

1. retirement of Mr. Tong Wui Tung as a non-executive director on 31 May 2007;
2. retirement of Mr. Ng Siu Yu, Larry as an independent non-executive director on 31 May 2007;
3. appointment of Mr. Choy Wing Keung, David as an independent non-executive director on 31 May 2007.

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.

Corporate Governance Report

In 2007, there were 25 Board meetings held, and the attendance of the Directors is set out below:

	Attendance	
Directors	**Regular Board Meeting**	**Special Board Meeting for operation matters**
Executive Directors		
Poon Siu Chung *(Chairman)*	4/4	25/25
Leung Ying Wai, Charles	1/4	10/25
Ip Siu On	2/4	23/25
Tsui Yan Lee, Benjamin	1/4	23/25
Non-Executive Director		
Tong Wui Tung	1/1	N/A
Independent Non-Executive Directors		
Ng Siu Yu, Larry	0/1	N/A
Yip Chi Hung	3/4	N/A
Lam Yat Cheong	4/4	N/A
Choy Wing Keung, David	3/3	N/A

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.

Corporate Governance Report

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.

During 2007, the Board held a meeting to discuss the appointment of Choy Wing Keung, David as an INED and the retirement of Tong Wui Tung and Ng Siu Yu, Larry as NED and INED respectively.

The Board adopted a procedure and criteria for nomination of directors, the details of which are set out below:

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

Corporate Governance Report

(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

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 31 May 2007, two INEDs, namely Lam Yat Cheong, Vincent and Yip Chi Hung, were elected to hold office for a specific term of approximately one year until the conclusion of the next annual general meeting, subject to re-election by shareholders. The other two NEDs/INEDs, namely Tong Wui Tung and Ng Siu Yu, Larry were retired and not offered themselves for election.

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 2007 they complied with the required standard set out in the Model Code for securities transactions.

The Directors' interests in shares of the Group as at 31 December 2007 are set out in this Annual Report.

Corporate Governance Report

Internal Control

The Board annually conducts a review on the effectiveness of the system of internal control of the Group. In 2007, 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 factories of the Group and found that only one factory out of nine have not fully complied with the ISO and the Group's internal control standards and procedures.

The Company is now exploring the possibility for establishment of an internal audit department.

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 currently comprises Mr. Yip Chi Hung, who is also the chairman of the Committee, Mr. Lam Yat Cheong and Mr. Choy Wing Keung, David 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 2007, one Committee meeting was held on 30 October 2007 which all the current 5 members attended.

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.

Corporate Governance Report

4. Factors for Defining Performance-Based Remuneration:

   (a) Eligibility for annual bonuses and any upper limits

   (b) Annual bonuses should be linked to relevant performance indicators designed to enhance the Company's business

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

   (d) Examples of performance indicators:

      (i) share price
      (ii) 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.

Corporate Governance Report

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 currently comprises 3 members, namely Mr. Lam Yat Cheong, who is also the chairman of the Committee, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, who are INEDs. Both Mr. Lam and Mr. Choy have professional qualifications in accounting.The details of the members' attendance in Committee meetings in 2007 are as follows:

Members	**Attendance**
Ng Siu Yu	1/1
Lam Yat Cheong	2/2
Yip Chi Hung	2/2
Tong Wui Tung	1/1
Choy Wing Keung, David	1/1

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 2007 includes consideration of the following matters:

- the completeness and accuracy of the 2006 annual and 2007 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 2006;
- detailed analysis of various aspects of the Company's financial performance; and
- investment policies and possible impact of certain investment transactions.

Corporate Governance Report

External Auditors

The Company's external auditor is HLM & Co. The Group will pay HLM & Co. approximately HK$750,000 for their audit services for 2007.

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 31 May 2007 at the Ritz-Carlton Hotel in Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated audited financial statements and reports for the Directors and auditors for the year ended 31 December 2006;
- declaring the final dividend;
- appointment of new director;
- re-electing certain Directors and authorizing the Board to fix their remunerations;
- 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 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 37 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 34.

An interim dividend of HK2.5 cents per share amounting to approximately HK$7,586,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK3.5 cents per share to the shareholders on the register of members on 27 May 2008, amounting to approximately HK$10,491,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 33% of the total turnover of the Group and the largest customer accounted for approximately 21% 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 24% 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.

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

The Group continued its replacement policy and expended HK$9,960,000 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 27 to the financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2007, 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$84,022,000 of which HK$10,491,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$78,944,000, 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 (retired on 31 May 2007)

Independent non-executive directors
Mr. Ng Siu Yu, Larry (retired on 31 May 2007)
Mr. Lam Yat Cheong
Mr. Yip Chi Hung
Mr. Choy Wing Keung, David (appointed on 31 May 2007)

In accordance with Bye-law 99 of the Bye-laws of the Company's, Mr. Poon Siu Chung, being executive Director, shall retire from office by rotation at the conclusion of the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

Further, Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, being independent non-executive Directors, will hold office until the conclusion of the forthcoming annual general meeting. All of them, 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).

Report of the Directors

All non-executive director and independent non-executive directors have been appointed for a term of 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 31 December 2007, 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	Number of shares held	Total	% of issued share capital of the associated corporation
Mr. Poon Siu Chung	Beneficial owner	25,310,000		
	Interest of spouse and controlled corporation	103,421,630	128,731,630 (a)	42.95
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	21.05
Mr. Ip Siu On	Beneficial owner	6,803,600	6,803,600	2.27
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	3,411,000	3,411,000	1.14
Mr. Yip Chi Hung	Interest of controlled corporation	2,000,000	2,000,000 (c)	0.67

Report of the Directors

Notes:

(a) Mr. Poon Siu Chung was the beneficial owner of 25,310,000 shares of the Company and he was deemed to be interested in 1,664,000 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. Of these shares, 618,200 shares are held in trust for others.

(b) Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, his spouse, Ms. Tai Yee Foon and his family members.

(c) Mr. Yip Chi Hung was deemed to be interested in 2,000,000 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**	**Number of shares held**	**Total**	**% of issued share capital of the associated corporation**
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner Interest of spouse	200 200	400 (d)	50
	Sunflower Garland Manufactory Limited	Beneficial owner Interest of spouse	60,800 20,800	81,600 (e)	51
Mr. Leung Ying Wai, Charles	Perfectech International Limited	Interest of spouse	400	400 (f)	50
Mr. Ip Siu On	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18
Mr. Tsui Yan Lee, Benjamin	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18

Report of the Directors

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.

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 31 December 2007.

Report of the Directors

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

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

	Number of options outstanding at 1.1.2007	Number of options granted during the year	Number of shares issued and exercise of options during the year	Number of options outstanding at 31.12.2007	Date granted	Exercise price per share HK$	Exercisable period
Directors							
Ip Siu On	3,000,000	–	–	3,000,000	2 February 2005	0.608	2 May 2005 - 31 December 2014
Tsui Yan Lee, Benjamin	3,000,000	–	(1,000,000)	2,000,000	2 February 2005	0.608	2 May 2005 - 31 December 2014
Yip Chi Hung	–	300,000	–	300,000	2 November 2007	0.85	2 December 2007 – 31 December 2016
Lam Yat Cheong	–	300,000	–	300,000	2 November 2007	0.85	2 December 2007 – 31 December 2016
Choy Wing Keung, David	–	300,000	–	300,000	2 November 2007	0.85	2 December 2007 – 31 December 2016
Employees	9,000,000	–	(1,000,000)	8,000,000	24 March 2006	0.54	24 April 2006 - 31 December 2014
	–	9,500,000	–	9,500,000	2 November 2007	0.85	2 December 2007 – 31 December 2016
	15,000,000	10,400,000	(2,000,000)	23,400,000			
Others	1,000,000	–	–	1,000,000	5 June 2002	0.664	5 July 2002 - 17 May 2012
	1,000,000	–	–	1,000,000	2 February 2005	0.608	2 May 2005 - 31 December 2014
	2,000,000	–	–	2,000,000			
Grant Total	17,000,000	10,400,000	(2,000,000)	25,400,000			

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

Report of the Directors

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 (being the yield of 10-year Exchange Fund Notes)	Expected volatility – *note (i)*	Expiration of the options	Expected ordinary dividend *note (iii)*
2 November 2007	10,400,000	2,143,000	HK$0.850	3.78%	42.83%	31 December 2016	8.82%

(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 2007 prospective dividend yield of the shares as at 2 November 2007.

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 Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period commencing from 11 July 2006 and expiring on 19 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 20 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 20 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 20 April 2006 at a monthly rent of HK$21,911.

During the year, the Group paid rental expenses of approximately HK$843,000 to Nice Step Investment Limited ("Nice Step"). The premises were disposed by Nice Step on 28 September, 2007.

(b) On 31 December, 2007, 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$20,000 for a period of three years commencing from 1 January 2008. 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$720,000. 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 31 December 2007 are as follows:

Subsidiaries connected	**In favour of**	**Guarantee amount** HK$	**Amount utilised** HK$
Paper and Printing	The Hongkong 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	–

Report of the Directors

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 compiled 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 31 December 2007, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the followings 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**	**Number of Shares held**	**% of issued share capital of the Company**
Ms. Lau Kwai Ngor	Interest of spouse and controlled corporation	128,731,630 (a)	42.95
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200 (b)	21.05
Allianz SE	Interest of controlled corporation	60,374,971 (c)	20.14
Dresdner Bank Aktiengesellschaft	Interest of controlled corporation	60,374,971 (c)	20.14
Dresdner VPV NV	Investment Manager	60,374,971(c)	20.14

Report of the Directors

Notes:

(a) Under the SFO, Ms. Lau Kwai Ngor was the beneficial owner of 1,664,000 shares and was deemed to be interested in 128,731,630 shares of the Company through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 25,310,000 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 SE and Dresdner Bank Aktiengesell schaft were deemed to be interested in the 60,374,971 shares of the Company held by Dresdner VPV 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 31 December 2007 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 11 to 19 of this annual report.

Report of the Directors

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

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

	No. of shares of HK$0.10 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate Consideration Paid HK$
Month of repurchase				
March 2007	1,200,000	0.820	0.790	970,480
June 2007	500,000	0.860	0.860	432,802
December 2007	3,706,000	0.900	0.870	3,324,132
	5,406,000			4,727,414

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Board and reviewed by 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 is set out in note 33 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.

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2007 of the Company now reported on.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2007.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 35 to the financial statements.

AUDITORS

The financial statements for the year have been audited by Messrs. HLM & Co., Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Mr. Poon Siu Chung
Chairman & Managing Director

Hong Kong, 15 April 2008

Independent Auditors' Report

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

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西2-12號聯發商業中心305室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: hlm@hlm.com.hk

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 31 December 2007, and the consolidated income statement, the consolidated statement of change 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 auditor's 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.

Independent Auditors' Report

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 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, 15 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	6 & 7	**524,950**	538,875
Cost of sales		**(434,142)**	(442,297)
Gross profit		**90,808**	96,578
Other income		**43,262**	13,559
Distribution costs		**(21,443)**	(24,221)
Administrative expenses		**(45,682)**	(41,397)
Other expenses	8	**(27,820)**	(3,615)
Gain on disposal of interest in subsidiaries		**–**	54
Gain on disposal of investment properties		**–**	490
Impairment loss on goodwill		**(175)**	(321)
Finance costs	9	**(624)**	(1,464)
Profit before tax	10	**38,326**	39,663
Income tax expenses	12	**(4,229)**	(3,317)
Profit for the year		**34,097**	36,346
Attributable to:			
Equity holders of the Company		**32,207**	33,763
Minority interests		**1,890**	2,583
Profit for the year		**34,097**	36,346
Dividends	13	**24,194**	7,671
Earnings per share	14		
Basic		**10.65 Cents**	11.01 Cents
Diluted		**10.42 Cents**	10.99 Cents

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**63,008**	73,881
Prepaid lease payments	16	**209**	284
Goodwill	17	**3,561**	3,561
Deferred tax assets	26	**1,103**	1,412
		67,881	79,138
CURRENT ASSETS			
Inventories	19	**70,778**	74,170
Trade and other receivables	20	**98,566**	102,762
Prepaid lease payments	16	**75**	75
Amount due from a minority shareholder of a subsidiary	21	**–**	175
Tax recoverable		**1,672**	236
Investments held-for-trading	23	**19,392**	11,922
Derivatives financial instruments	22	**3,296**	715
Pledged bank deposits	24	**74,209**	18,813
Bank balances and cash	21	**53,400**	63,776
		321,388	272,644
CURRENT LIABILITIES			
Trade and other payables	25	**51,810**	49,755
Derivatives financial instruments	22	**32,484**	3,821
Tax liabilities		**3,123**	2,725
		87,417	56,301
NET CURRENT ASSETS		**233,971**	216,343
TOTAL ASSETS LESS CURRENT LIABILITIES		**301,852**	295,481
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**2,262**	2,950
		2,262	2,950
NET ASSETS		**299,590**	292,531
CAPITAL AND RESERVES			
Share capital	27	**29,975**	30,316
Reserves		**261,250**	254,322
Equity attributable to equity holders of the Company		**291,225**	284,638
Minority interests		**8,365**	7,893
TOTAL EQUITY		**299,590**	292,531

The financial statements on pages 34 to 85 were approved and authorised for issue by the board of directors on 15 April 2008 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Translation reserves HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1 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 31 December 2006	30,316	77,723	3,343	45	2,204	171,007	284,638	7,893	292,531
At 1 January 2007	30,316	77,723	3,343	45	2,204	171,007	284,638	7,893	292,531
Profit for the year	–	–	–	–	–	32,207	32,207	1,890	34,097
Recognition of equity – settled share based payment	–	–	–	–	2,143	–	2,143	–	2,143
Share issued upon exercise of options	200	1,221	–	–	(273)	–	1,148	–	1,148
Dividends *(Note 13)*	–	–	–	–	–	(24,194)	(24,194)	(1,418)	(25,612)
Repurchase and cancellation of shares	(541)	–	541	–	–	(4,727)	(4,727)	–	(4,727)
Exchange difference arising on translation of foreign operations	–	–	–	10	–	–	10	–	10
At 31 December 2007	29,975	78,944	3,884	55	4,074	174,293	291,225	8,365	299,590

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**38,326**	39,663
Adjustments for:		
Impairment loss on trade receivables	**935**	557
Impairment loss on goodwill	**175**	321
Release of prepaid lease payments	**75**	76
Depreciation of property, plant and equipment	**16,963**	18,928
Dividend income from investments held-for-trading	**(269)**	(201)
Finance costs	**624**	1,464
Gain on disposals of investments held-for-trading	**(28,267)**	(8,800)
Written down of inventories	**–**	8,832
Interest income	**(4,773)**	(902)
Loss on disposals of property, plant and equipment	**2,172**	–
Share-based payment expenses	**2,143**	1,323
Decrease in fair value of investments held-for-trading	**1,738**	159
Decrease in fair value of derivatives financial instruments	**26,082**	3,456
Gain on disposal of investment property	**–**	(490)
Operating cash flows before movements in working capital	**55,924**	64,386
Decrease in inventories	**3,392**	10,483
Decrease (increase) in trade and other receivables	**3,261**	(21,069)
Decrease in amount due from a minority shareholder of a subsidiary	**175**	25
Increase (decrease) in trade and other payables	**2,055**	(18)
Cash generated from operations	**64,807**	53,807
Hong Kong Profits Tax (paid) refunded, net	**(5,646)**	150
NET CASH FROM OPERATING ACTIVITIES	**59,161**	53,957

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES		
Purchase of investments held-for-trading	**(561,500)**	(291,888)
Purchase of property, plant and equipment	**(9,960)**	(7,398)
Proceeds on disposals of investments held-for-trading	**580,559**	297,058
Proceeds on disposal of investment property	**–**	8,830
Increase in pledged bank deposits	**(55,396)**	(10,089)
Proceeds on disposal of property, plant and equipment	**1,705**	–
Proceeds on redemption of bonds	**–**	629
Dividend received from investments held-for-trading	**269**	201
Interest received	**4,773**	902
Acquisition of additional interest in a subsidiary	**(175)**	–
Disposal of interest in subsidiaries	**–**	(54)
NET CASH USED IN INVESTING ACTIVITIES	**(39,725)**	(1,809)
FINANCING ACTIVITIES		
Interest paid	**(624)**	(1,464)
Repayment of bank borrowings	**–**	(6,500)
Dividends paid	**(24,194)**	(7,671)
Payment for repurchase of shares	**(4,727)**	(4,150)
Proceed received upon share option exercised	**1,148**	–
Dividend paid to minority shareholders	**(1,418)**	(709)
Repayment of obligations under a finance lease	**–**	(135)
NET CASH USED IN FINANCING ACTIVITIES	**(29,815)**	(20,629)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(10,379)**	31,519
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**63,776**	32,279
Effect of change in foreign exchange rates	**3**	(22)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, representing		
Bank balances and cash	**53,400**	63,776

Notes to the Financial Statements

For the year ended 31 December 2007

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, the following new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 January 2007.

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

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

Notes to the Financial Statements

For the year ended 31 December 2007

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

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

[2] Effective for annual periods beginning on or after 1 March 2007.

[3] Effective for annual periods beginning on or after 1 January 2008.

[4] Effective for annual periods beginning on or after 1 July 2008.

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.

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2007

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 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 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 consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated 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.

Notes to the Financial Statements

For the year ended 31 December 2007

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

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2007

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

Leasing *(Cont'd)*

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2007

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

Foreign currencies *(Cont'd)*

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 1 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 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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes 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 31 December 2007

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

Taxation *(Cont'd)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts 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 recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that probable taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative 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.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 at 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 realized. 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 31 December 2007

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designed as at FVTPL, of which interest income is included in net gains or losses.

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 FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Notes to the Financial Statements

For the year ended 31 December 2007

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

Financial instruments *(Cont'd)*

Financial assets at fair value through profit or loss (Cont'd)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

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) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

Notes to the Financial Statements

For the year ended 31 December 2007

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

Financial instruments *(Cont'd)*

Impairment of financial assets (Cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity instruments

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 FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Notes to the Financial Statements

For the year ended 31 December 2007

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

Financial instruments *(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 treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

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

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

Notes to the Financial Statements

For the year ended 31 December 2007

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 on tangible and intangible assets other than goodwill

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2007 was HK$63,008,000. 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.

Notes to the Financial Statements

For the year ended 31 December 2007

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

Impairment on trade receivables

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

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 31 December 2007, the carrying amount of goodwill is HK$3,561,000. Details of the recoverable amount calculation are disclosed in note 18.

Income taxes

As at 31 December 2007, a deferred tax asset of HK$1,414,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

Notes to the Financial Statements

For the year ended 31 December 2007

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk management

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. The Group currently has a foreign currency hedging policy and the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities 2007 HK$'000	**Assets 2007 HK$'000**
Renminbi ("Rmb")	**15,401**	**6,489**

The following table shows the sensitivity analysis of a 5% increase in Rmb against the Hong Kong dollars, the effect in the profit for the year is as follows:

	Impact of Rmb 2007 HK$'000
Decrease in profit for the year	**445**

Liquidity risk management

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

Notes to the Financial Statements

For the year ended 31 December 2007

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

Interest rate risk management

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings but all were repaid.

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 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.

Price risk management

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.

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.

	2007 **HK$'000**	2006 HK$'000
Novelties and decorations products	**130,498**	139,369
Packaging products	**124,985**	152,720
PVC films and plastic materials	**102,479**	85,468
Toys products	**166,988**	161,318
	524,950	538,875

Notes to the Financial Statements

For the year ended 31 December 2007

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.

2007

	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	130,498	124,985	102,479	166,988	–	524,950
Inter-segment sales	3,018	27,968	4,276	1,056	(36,318)	–
Total revenue	133,516	152,953	106,755	168,044	(36,318)	524,950
RESULT						
Segment result	13,304	(1,676)	(91)	17,594	(1,269)	27,862
Income from investments						10,566
Unallocated corporate income						522
Finance costs						(624)
Profit before tax						38,326
Income tax expenses						(4,229)
Profit for the year						34,097

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

For the year ended 31 December 2007

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	74,885	82,207	39,773	93,191	290,056
Unallocated corporate assets					99,213
Consolidated total assets					389,269
LIABILITIES					
Segment liabilities	27,944	17,777	1,738	25,369	72,828
Unallocated corporate liabilities					16,851
Consolidated total liabilities					89,679

OTHER INFORMATION

	Novelties and decorations products HK$'000	Packaging products HK$'000	PVC films and plastic materials HK$'000	Toy products HK$'000	Consolidated HK$'000
Capital additions	1,754	1,705	5	6,496	9,960
Depreciation and amortisation	4,268	6,549	61	6,085	16,963
Release of prepaid lease payments	–	–	–	75	75

Notes to the Financial Statements

For the year ended 31 December 2007

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

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

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	145,382	191,542	92,737	161,870	(52,656)	538,875
RESULT						
Segment result	15,497	3,481	1,070	15,373	(1,399)	34,022
Income from investments						5,993
Unallocated corporate income						1,112
Finance costs						(1,464)
Profit before tax						39,663
Income tax expenses						(3,317)
Profit for the year						36,346

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

For the year ended 31 December 2007

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					351,782
LIABILITIES					
Segment liabilities	13,708	20,958	1,481	21,682	57,829
Unallocated corporate liabilities					1,422
Consolidated total liabilities					59,251

OTHER INFORMATION

	Novelties and decorations products HK$'000	Packaging products HK$'000	PVC films and plastic materials HK$'000	Toy products HK$'000	Consolidated HK$'000
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	–	–	–	76	76

Notes to the Financial Statements

For the year ended 31 December 2007

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

(b) Geographical segments

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

	2007	2006
	HK$'000	HK$'000
Sales revenue by geographical market:		
Hong Kong	**254,430**	262,139
Europe	**97,873**	103,363
America	**66,330**	89,473
Asia (other than Hong Kong)	**100,015**	81,877
Others	**6,302**	2,023
	524,950	538,875

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**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**241,550**	193,031	**286**	48
The People's Republic of China (the "PRC")	**147,719**	158,751	**9,674**	7,350
	389,269	351,782	**9,960**	7,398

Notes to the Financial Statements

For the year ended 31 December 2007

8. OTHER EXPENSE

	2007	2006
	HK$'000	HK$'000
Decrease in fair value of investments held-for-trading	**1,738**	159
Decrease in fair value of derivatives financial instruments	**26,082**	3,456
	27,820	3,615

9. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**624**	1,098
Other borrowings wholly repayable within five years	**–**	363
Finance lease wholly repayable within five years	**–**	3
	624	1,464

Notes to the Financial Statements

For the year ended 31 December 2007

10. PROFIT BEFORE TAX

	2007 HK$'000	2006 HK$'000
Profit before tax has been arrived at after charging:		
Release of prepaid lease payments	**75**	76
Impairment loss on trade receivables	**935**	557
Written down of inventories	**–**	8,832
Auditors' remuneration	**750**	665
Depreciation of property, plant and equipment	**16,963**	18,928
Foreign exchange losses, net	**1,625**	6,002
Loss on disposals of property, plant and equipment	**2,172**	–
Staff costs (including directors' emoluments)	**115,427**	111,034
Share-based payments expenses	**2,143**	1,323
Cost of inventories recognised as an expense	**278,855**	282,922
and after crediting:		
Interest income	**4,773**	902
Dividend income from investments held-for-trading	**269**	201
Gain on disposals of investments held-for-trading	**28,267**	8,800

Notes to the Financial Statements

For the year ended 31 December 2007

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

		Other emoluments		
Emoluments	**Fees**	**Salaries and other benefits**	**Retirement benefit scheme contributions**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Poon Siu Chung	**–**	**2,066**	**45**	**2,111**
Leung Ying Wai, Charles	**–**	**–**	**–**	**–**
Ip Siu On	**–**	**1,994**	**29**	**2,023**
Tsui Yan Lee, Benjamin	**–**	**2,025**	**29**	**2,054**
Tong Wui Tung	**–**	**–**	**–**	**–**
Ng Siu Yu, Larry	**–**	**–**	**–**	**–**
Lam Yat Cheong	**50**	**–**	**–**	**50**
Yip Chi Hung	**50**	**–**	**–**	**50**
Choy Wing Keung, David	**50**	**–**	**–**	**50**
Total for 2007	**150**	**6,085**	**103**	**6,338**

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

		Other emoluments		
Emoluments	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'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	100	–	–	100
Ng Siu Yu, Larry	100	–	–	100
Lam Yat Cheong	50	–	–	50
Yip Chi Hung	100	–	–	100
Total for 2006	350	4,643	75	5,068

Notes to the Financial Statements

For the year ended 31 December 2007

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, three (2006: three) were directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2006: two) individuals were as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**1,854**	2,036
Retirement benefit schemes contributions	**33**	27
	1,887	2,063

Their emoluments were within the following bands:

	2007 Number of employees	2006 Number of employees
Nil – HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**1**	1
	2	2

Notes to the Financial Statements

For the year ended 31 December 2007

12. INCOME TAX EXPENSES

	2007 HK$'000	2006 HK$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax		
Current year	**4,519**	3,697
Under-provision in prior years	**89**	42
	4,608	3,739
Deferred tax *(note 26)*		
Current year	**(379)**	(422)
	4,229	3,317

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

	2007 HK$'000	2006 HK$'000
Profit before tax	**38,326**	39,663
Tax at Hong Kong Profits Tax of 17.5%	**6,707**	6,841
Tax effect of income not taxable for tax purposes	**(6,805)**	(4,893)
Tax effect of expenses not deductible for tax purposes	**2,870**	616
Tax effect on temporary differences not recognised	**(25)**	1,613
Utilisation of tax losses not previously recognised	**(20)**	(1,363)
Tax effect on tax losses not recognised	**1,367**	417
Under-provision in prior year	**104**	42
Others	**31**	44
Tax charge for the year	**4,229**	3,317

Notes to the Financial Statements

For the year ended 31 December 2007

13. DIVIDENDS

	2007 HK$'000	2006 HK$'000
Interim, paid – HK2.5 cents (2006: HK1.0 cent) per share	**7,586**	3,049
Final, paid – HK5.5 cents per share for 2006 (2006: HK1.5 cents per share for 2005)	**16,608**	4,622
	24,194	7,671

The final dividend of HK3.5 cents (2006: HK5.5 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$32,207,000 (2006: HK$33,763,000) and the following data:

	2007	2006
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**302,481,091**	306,615,469
Effect of dilutive potential ordinary shares on share options	**6,748,527**	531,265
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**309,229,618**	307,146,734

Notes to the Financial Statements

For the year ended 31 December 2007

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 1 January 2006	190	39,122	32,610	214,869	4,515	291,306
Additions	–	545	1,185	5,461	207	7,398
At 31 December 2006 and 1 January 2007	190	39,667	33,795	220,330	4,722	298,704
Exchange alignments	–	–	2	6	–	8
Additions	–	1,424	779	7,039	718	9,960
Disposal	–	(906)	(126)	(4,072)	(305)	(5,409)
At 31 December 2007	190	40,185	34,450	223,303	5,135	303,263
DEPRECIATION AND AMORTISATION						
At 1 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
At 31 December 2006 and 1 January 2007	69	24,848	26,458	169,523	3,925	224,823
Exchange alignments	–	–	–	1	–	1
Provided for the year	2	2,701	1,605	12,047	608	16,963
Eliminated upon disposals	–	(151)	(43)	(1,043)	(295)	(1,532)
At 31 December 2007	71	27,398	28,020	180,528	4,238	240,255
CARRYING VALUES						
At 31 December 2007	119	12,787	6,430	42,775	897	63,008
At 31 December 2006	121	14,819	7,337	50,807	797	73,881

Notes to the Financial Statements

For the year ended 31 December 2007

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$12,521,000 (2006: HK$14,819,000) at 31 December 2007.

16. PREPAID LEASE PAYMENTS

	2007	2006
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in Hong Kong	**57**	59
Medium-term leasehold land in PRC	**227**	300
	284	359
Analysed for reporting purposes as:		
Current asset	**75**	75
Non-current asset	**209**	284
	284	359

Notes to the Financial Statements

For the year ended 31 December 2007

17. GOODWILL

	HK$'000
COST	
At 1 January 2007	5,642
Addition	175
At 31 December 2007	5,817
IMPAIRMENT	
At 1 January 2007	2,081
Impairment loss recognised for the year	175
At 31 December 2007	2,256
CARRYING VALUES	
At 31 December 2007	3,561
At 31 December 2006	3,561

During the year, the Group has acquired an additional 20% interest in a subsidiary which has no asset value on the date of acquisition at a consideration of HK$175,000. The goodwill of HK$175,000 was impaired after the additional acquisition.

Particulars regarding impairment testing on goodwill are disclosed in note 18.

Notes to the Financial Statements

For the year ended 31 December 2007

18. 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 17 has been allocated to two individual cash generating units (CGUs). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2007 allocated to these units are as follows:

	Goodwill HK$'000
Toys Products Segment	
– Perfectech International Manufacturing Limited	
• Toys Sub-segment ("Toy")	1,927
(including Beyond Growth International Limited, Dream Creation Limited, Golden Enterprise Holding Limited and Yu-Me (H.K.) Limited)	
• Moulds Sub-segment ("Moulds")	
(Shouji Tooling Factory Limited)	1,634
	3,561

Toys

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

19. INVENTORIES

	2007 **HK$'000**	2006 HK$'000
Raw materials	**44,251**	41,690
Work in progress	**7,707**	4,546
Finished goods	**18,820**	27,934
	70,778	74,170

Notes to the Financial Statements

For the year ended 31 December 2007

20. TRADE AND OTHER RECEIVABLES

	2007 **HK$'000**	2006 HK$'000
Trade receivables	**107,932**	105,794
Less: impairment loss on trade receivables	**(12,406)**	(11,481)
	95,526	94,313
Prepayment and other receivables	**3,040**	8,449
	98,566	102,762

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

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

	2007 **HK$'000**	2006 HK$'000
0 – 60 days	**59,457**	58,013
61 – 90 days	**12,894**	9,966
91 – 120 days	**7,604**	13,448
Over 120 days	**15,571**	12,886
	95,526	94,313

The fair value of the Group's trade and other receivables at 31 December 2007 approximate to the corresponding carrying amount.

21. 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 31 December 2006 approximates 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 1.75% to 3.85% (2006: 3.37% to 4.87%) with an original maturity of three months or less. The fair value of these assets at 31 December 2007 approximates to the corresponding carrying amounts.

Notes to the Financial Statements

For the year ended 31 December 2007

22. DERIVATIVES FINANCIAL INSTRUMENTS

	2007 HK$'000	2006 HK$'000
Financial assets		
Foreign currency forward contracts	**3,296**	715
Financial liabilities		
Listed equity and foreign currency forward contracts	**(32,484)**	(3,821)
	(29,188)	(3,106)

At 31 December 2007, the major terms of the listed equity and foreign currency forward contracts are as follows:

Notional amount	Underlying securities	Maturity	Forward Price
HK$41,701,140	China Life Insurance Company Limited	16 October 2008	HK$44.553
HK$23,167,300	China Life Insurance Company Limited	16 October 2008	HK$44.553
HK$36,863,100	China Life Insurance Company Limited	13 October 2008	HK$37.463
HK$4,166,256	China Life Insurance Company Limited	3 November 2008	HK$42.340
HK$30,631,952	CNOOC Limited	28 October 2008	HK$14.727
HK$81,533,650	China Mobile Limited	22 October 2008	HK$130.663
HK$4,446,000	Ping An Insurance (Group) Company of China, Limited	27 October 2008	HK$90.000
HK$3,418,480	Petrochina Company Limited	6 November 2008	HK$13.840
HK$23,400,000	HK Dollar/US Dollar	31 July 2008	HK$7.755-7.700
HK$7,800,000	HK Dollar/US Dollar	16 September 2009	HK$7.75-7.850
HK$7,800,000	HK Dollar/US Dollar	15 April 2008	HK$7.685
HK$23,400,000	Renminbi/US Dollar	24 June 2008	RMB7.285-7.355
HK$23,400,000	Renminbi/US Dollar	19 November 2008	RMB7.180-7.560
HK$7,800,000	Renminbi/USD LIBOR	27 March 2008	RMB7.765
HK$15,600,000	Renminbi/USD LIBOR	12 June 2008	RMB7.650
HK$15,600,000	Renminbi/EUR CMS	18 July 2008	RMB7.620

The above derivatives financial instruments 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.

Notes to the Financial Statements

For the year ended 31 December 2007

23. INVESTMENTS HELD-FOR-TRADING

Investments held-for-trading include:

	2007	2006
	HK$'000	HK$'000
Equity securities listed in Hong Kong	**11,147**	4,198
Unlisted debt securities	**8,245**	7,724
	19,392	11,922

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

24. PLEDGED BANK DEPOSITS

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

The deposits carry variable interest rate ranging from 1.75% to 3.85% (2006: 3.37% to 4.87%). The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31 December 2007 approximates to the corresponding carrying amount.

25. TRADE AND OTHER PAYABLES

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

	2007	2006
	HK$'000	HK$'000
0 – 60 days	**27,679**	21,888
61 – 90 days	**3,175**	4,724
91 – 120 days	**582**	1,084
Over 120 days	**2,193**	953
	33,629	28,649

The fair value of the Group's trade and other payables at 31 December 2007 approximates to the corresponding carrying amount.

Notes to the Financial Statements

For the year ended 31 December 2007

26. 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 1 January 2006	3,952	457	(2,449)	1,960
Charge (credit) to income for the year	(417)	(457)	452	(422)
At 31 December 2006 and 1 January 2007	3,535	–	(1,997)	1,538
Charge (credit) to income for the year	(962)	–	583	(379)
At 31 December 2007	2,573	–	(1,414)	1,159

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:

	2007 HK$'000	2006 HK$'000
Deferred tax liabilities	**2,262**	2,950
Deferred tax assets	**(1,103)**	(1,412)
	1,159	1,538

At the balance sheet date, the Group has unused tax losses of approximately HK$26,891,000 (2006: HK$21,170,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$8,079,000 (2006: HK$11,550,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$18,812,000 (2006: HK$9,620,000) due to the unpredictability of future profit streams.

Notes to the Financial Statements

For the year ended 31 December 2007

27. SHARE CAPITAL

	Authorised		Issued and fully paid	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.10 each				
At beginning of the year	**700,000**	700,000	**30,316**	31,054
Exercise of share options	**–**	–	**200**	–
Share repurchased and cancelled *(note 1)*	**–**	–	**(541)**	(738)
At end of the year	**700,000**	700,000	**29,975**	30,316

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

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

	No. of shares of HK$0.10 each	**Price per share Highest**	**Price per share Lowest**	**Aggregate consideration paid**
		HK$	HK$	HK$
Month of repurchase				
March 2007	1,200,000	0.820	0.790	970,480
June 2007	500,000	0.860	0.860	432,802
December 2007	3,706,000	0.900	0.870	3,324,132
	5,406,000			4,727,414

Notes to the Financial Statements

For the year ended 31 December 2007

28. PLEDGE OF ASSETS

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

(i) Investments held-for-trading with a carrying value of approximately HK$11,147,000 (2006: 11,922,000); and

(ii) Bank balances and cash of approximately HK$74,209,000 (2006: HK$18,813,000).

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%.

29. OPERATING LEASES

The Group as lessee

	2007	2006
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year		
Rented premises	**8,366**	4,437
Plant and machinery	**–**	3,451
	8,366	7,888

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:

	2007	2006
	HK$'000	HK$'000
Within one year	**6,354**	7,748
In the second to fifth years inclusive	**10,289**	14,367
Over five years	**34,300**	37,666
	50,943	59,781

Operating lease payments represent rentals payable by the Group for certain of its office and factory properties. Leases are negotiated for terms ranging from 2 to 35 years.

Notes to the Financial Statements

For the year ended 31 December 2007

30. CAPITAL COMMITMENTS

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**–**	392
Capital expenditure in respect of the acquisition of property, plant and equipment authorised for but not contracted for	**2,109**	288

31. OTHER COMMITMENTS

At 31 December 2007, the Group carried outstanding forward contracts which entailed a commitment for purchase of equity shares of notional amount of approximately HK$213,670,000 (2006: HK$36,267,000) as disclosed in note 22.

In the opinion of the directors, the commitments will be settled monthly with an amount ranging from approximately HK$19 million to HK$22 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.

32. CONTINGENT LIABILITIES

(a) Contingent liability in respect of legal claim

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

Notes to the Financial Statements

For the year ended 31 December 2007

32. CONTINGENT LIABILITIES *(Cont'd)*

(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.

33. SHARE-BASED PAYMENT TRANSACTIONS

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

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

Notes to the Financial Statements

For the year ended 31 December 2007

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

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

Options granted must remain open for acceptance until 5:00 p.m. on the 5th business day following the offer date provided that no such offer shall be 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.

All options were vested on the date of grant.

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

a) the closing price of shares at the date of grant of a share option;

b) the average closing price of the shares for the five business days immediately preceding the date of grant; and

c) the nominal value of a share.

At the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 25,400,000, representing approximately 8.4% of the shares of the Company in issue at that date.

Total consideration received during the year from the directors and employees for taking up the options granted during the year is HK$10 (2006: HK$Nil).

Notes to the Financial Statements

For the year ended 31 December 2007

33. 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:

		Number of share options					
	Option type	**At 1.1.2006**	**Granted during the year**	**At 31.12.2006 & 1.1.2007**	**Granted during the year**	**Exercised during the year**	**At 31.12.2007**
Directors	B	6,000,000	–	6,000,000	–	(1,000,000)	5,000,000
	D	–	–	–	900,000	–	900,000
		6,000,000	–	6,000,000	900,000	(1,000,000)	5,900,000
Employees	B	–	–	–	–	–	–
	C	–	9,000,000	9,000,000	–	(1,000,000)	8,000,000
	D	–	–	–	9,500,000	–	9,500,000
		–	9,000,000	9,000,000	9,500,000	(1,000,000)	17,500,000
Others	A	1,000,000	–	1,000,000	–	–	1,000,000
	B	1,000,000	–	1,000,000	–	–	1,000,000
		2,000,000	–	2,000,000	–	–	2,000,000
Total		8,000,000	9,000,000	17,000,000	10,400,000	(2,000,000)	25,400,000

Details of specific categories of options are as follows:

Option type	**Date of grant**	**Exercise period**	**Exercise price** HK$
A	5 June 2002	5 July 2002 to 17 May 2012	0.664
B	2 February 2005	2 May 2005 to 31 December 2014	0.608
C	24 March 2006	24 April 2006 to 31 December 2014	0.540
D	2 November 2007	1 December 2007 to 31 December 2016	0.850

Notes to the Financial Statements

For the year ended 31 December 2007

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

The closing price of the Company's shares on 5 June 2002, 2 February 2005, 24 March 2006 and 2 November 2007, were HK$0.64, HK$0.60, HK$0.52 and HK$0.85 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 (being the yield of 10-year exchange fund Notes)**	**Expected volatility –** *Note (i)*	**Expiration of the options**	**Expected ordinary dividend** *Note (iii)*
2 November 2007	10,400,000	2,143,000	HK$0.850	3.78%	42.83%	31 December 2016	8.82%

(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 2007 prospective dividend yield of the shares as at 2 November 2007.

During the year ended 31 December 2007, options were granted on 2 November 2007. The estimate fair values of the options granted are approximately HK$ 2,143,000.

Notes to the Financial Statements

For the year ended 31 December 2007

34. 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 1 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 employees.

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

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

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in future years, was HK$Nil (2006: HK$Nil).

The total cost charged to income of approximately HK$624,000 (2006: HK$621,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

Notes to the Financial Statements

For the year ended 31 December 2007

35. POST BALANCE SHEET EVENT

Subsequent to year end, the Company has purchased 300,000 Shares of its own shares through the Stock Exchange:

	No. of shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	HK$	HK$
Month of repurchase				
March 2008	300,000	0.680	0.680	205,486

In view of the Group's operating needs for Renminbi, the Group entered into structured contracts with a bank in March 2007 and January 2008 for a one year contract and a six-month contract respectively (the "Structured Product Contracts") to minimise its foreign exchange exposure to appreciation of Renminbi. The Structured Product Contracts are cash-settled (both without physical delivery of Renminbi) and are linked to USD LIBOR and Renminbi exchange rate. If the USD LIBOR falls within a specific range in the relevant period, the contract will be settled as if the Group had purchased Renminbi at a pre-determined subsidized rate. However, the Group will incur loss if the USD LIBOR falls outside the specific range during certain specified quarter or quarters. As a result of the significant drop in US interest rate recently, the USD LIBOR has fallen beyond the prescribed specific range.

Upon becoming aware of the possibility of incurring significant loss as a result of the Structured Product Contracts in late January 2008, the Company has since explored ways to minimise its potential loss. On 22 February 2008, the Group unwound part of the Structured Product Contracts and the Company was informed that the indicative costs for unwinding the remaining Structured Product Contracts would be approximately US$5.140 million (equivalent to approximately HK$40.092 million). The Board expects that the unrealised loss of such remaining contracts will not exceed US$5.473 million (equivalent to approximately HK$42.689 million) unless there is a material drop of Renminbi exchange rate in the next five months. Accordingly, the Group has incurred under the Structured Product Contracts loss (after netting off the total realised gain) of approximately US$0.745 million (equivalent to approximately HK$5.811 million) (the "Realised Loss"), which has been taken up in the income statement for the year ended 31 December 2007 and based on the information currently available, the Group is expected to incur further unrealised loss of up to approximately US$5.353 million (equivalent to approximately HK$41.753 million) (the "Unrealised Loss"), instead of approximately US$5.473 million (equivalent to approximately HK$42.689 million) as announced in the Company's announcement dated 22 February 2008.

The amount of the Unrealised Loss stated herein is only based on the preliminary assessment by the Company's management according to the information currently available to it. Save as aforesaid, there is no other similar arrangement entered into by the Group at present. The Realised Loss and Unrealised Loss arising from the Structured Product Contracts are non-recurring in nature. The board believes that the principal business activities of the Group remain strong and intact and the Group continues to maintain a healthy liquidity position and has sufficient financial resources to meet the requirements of its ordinary operation and capital expenditure.

Notes to the Financial Statements

For the year ended 31 December 2007

36. 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:

	2007	2006
	HK$'000	HK$'000
Rental expenses paid to:		
Nice Step Investment Limited *(Note)*	**843**	1,144
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.

(b) Compensation of key management personnel

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

	2007	2006
	HK$'000	HK$'000
Short-term benefits	**7,434**	6,052
Post-employment benefits	**149**	120
Share-based payments	**824**	–
	8,407	6,172

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 31 December 2007

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/registered capital held by the Company Directly	Indirectly	Paid up issued/ registered ordinary share capital	Principal activities
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
珠海多發塑膠制品有限公司	The PRC	–	100%	RMB530,600	Trading of novelties and festival decorations products
iTech Limited	Hong Kong	–	100%	HK$2	Investment holding
Leader Stationery & Gifs Manufacturing Company Limited	Hong Kong	–	100%	HK$1,000,000	Manufacturing of stationery products
Link Faith Company Limited	Hong Kong	–	100%	HK$100,000	Securities investments
Onward Packing Manufacturer Limited	Hong Kong	–	100%	HK$320,000	Manufacture of novelties, festival decorations and packaging products
Perfectech Colour Centre Limited	Hong Kong	–	100%	HK$1,000,000	Dye stuff manufacturing

Notes to the Financial Statements

For the year ended 31 December 2007

37. 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 Directly	Indirectly	Paid up issued/ registered ordinary share capital	Principal activities
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
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

Notes to the Financial Statements

For the year ended 31 December 2007

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

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.

38. BALANCE SHEET INFORMATION OF THE COMPANY

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

	2007 **HK$'000**	2006 HK$'000
Unlisted investments in subsidiaries	**32,061**	32,061
Deferred tax assets	**96**	211
Bank balance and cash	**72**	99
Tax asset	**2**	–
Other current assets	**168,821**	123,744
Current liability	**(153)**	(123)
Net assets	**200,899**	155,992
Share capital *(note 27)*	**29,975**	30,316
Reserves	**170,924**	125,676
Total equity	**200,899**	155,992

Profit of the Company for 2007 amounted to HK $70 million (2006: HK $1.0 million).

Financial Summary

RESULTS

	Year ended 31 December				
	2003 HK$'000	2004 HK$'000 (as restated)	2005 HK$'000	2006 HK$'000	**2007 HK$'000**
Revenue	315,357	509,820	515,875	538,875	**524,950**
Profit before tax	19,901	27,180	14,465	39,663	**38,326**
Income tax expenses	(1,903)	(1,884)	(2,982)	(3,317)	**(4,229)**
Profit for the year	17,998	25,296	11,483	36,346	**34,097**
Attributable to:					
Equity holders of the Company	18,175	22,537	10,701	33,763	**32,207**
Minority interests	(177)	2,759	782	2,583	**1,890**
Profit for the year	17,998	25,296	11,483	36,346	**34,097**

ASSETS AND LIABILITIES

	As at 31 December				
	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007 HK$'000**
Total assets	333,552	341,259	327,718	351,782	**389,269**
Total liabilities	(83,104)	(62,802)	(60,250)	(59,251)	**(89,679)**
Total equity	250,448	278,457	267,468	292,531	**299,590**
Minority interests	14,711	17,470	6,073	7,893	**8,365**
Equity attributable to equity holders of the Company	235,737	260,987	261,395	284,638	**291,225**
Total equity	250,448	278,457	267,468	292,531	**299,590**