

**Perfectech**

**Perfectech International Holdings Limited**

Incorporated in Bermuda with limited liability

INTERIM REPORT 2010

**TOY PRODUCTS**

**DECORATION**

**NOVELTIES**

**Progress on Solid Foundations**

**腳踏實地**

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### *Executive Directors:*

Mr. Poon Siu Chung  
(*Chairman and Managing Director*)  
Mr. Ip Siu On  
Mr. Tsui Yan Lee, Benjamin  
Dr. Poon Wai Tsun, William  
(Appointed on 6 July 2010)

#### *Independent Non-executive Directors:*

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

### COMPANY SECRETARY

Ms. Pang Siu Yin

### AUDITORS

HLM & Co.  
*Certified Public Accountants*  
Hong Kong

### LEGAL ADVISER

Cheung, Tong and Rosa

### REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

### PRINCIPAL BANKERS

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

### HONG KONG BRANCH SHARE REGISTRAR

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

CONDENSED CONSOLIDATED STATEMENT OF  
 COMPREHENSIVE INCOME  
 FOR THE SIX MONTHS ENDED 30 JUNE 2010

		(Unaudited) For the six months ended 30 June	
	Notes	2010 HK\$'000	2009 HK\$'000
Revenue	2 & 3	<b>138,607</b>	154,210
Cost of sales		<b>(118,168)</b>	(130,852)
Gross profit		<b>20,439</b>	23,358
Net other incomes	4	<b>454</b>	10,126
Distribution costs		<b>(6,302)</b>	(6,450)
Administrative expenses		<b>(12,452)</b>	(21,558)
Finance costs		<b>(121)</b>	(315)
Profit before tax	5	<b>2,018</b>	5,161
Income tax (expenses) credit	6	<b>(42)</b>	81
Profit for the period		<b>1,976</b>	5,242
Other comprehensive expenses			
Exchange differences on translation of overseas operations		<b>(24)</b>	(66)
Total comprehensive income for the period		<b>1,952</b>	5,176
Profit for the period attributable to:			
Owners of the Company		<b>1,231</b>	5,460
Non-controlling interests		<b>745</b>	(218)
Profit for the period		<b>1,976</b>	5,242
Total comprehensive income for the period attributable to:			
Owners of the Company		<b>1,207</b>	5,394
Non-controlling interests		<b>745</b>	(218)
Total comprehensive income for the period		<b>1,952</b>	5,176
Dividends	7	<b>17,938</b>	2,949
Earnings per share	8		
Basic		<b>0.44 cent</b>	1.85 cents
Diluted		<b>0.43 cent</b>	N/A

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010 AND 31 DECEMBER 2009

	Notes	<b>(Unaudited) 30 June 2010 HK\$'000</b>	(Audited) 31 December 2009 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	<b>41,135</b>	46,109
Prepaid lease payments		<b>52</b>	59
Deferred tax assets		<b>3,010</b>	2,221
		<b>44,197</b>	48,389
<b>CURRENT ASSETS</b>			
Inventories		<b>91,593</b>	50,157
Trade and other receivables	10	<b>65,900</b>	55,134
Prepaid lease payments		<b>45</b>	75
Taxation recoverable		<b>177</b>	462
Investments held-for-trading	12	<b>84,255</b>	92,996
Derivative financial instruments	11	<b>1,124</b>	98
Pledged bank deposits		<b>4,132</b>	793
Bank balances and cash		<b>43,185</b>	77,020
		<b>290,411</b>	276,735
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	<b>58,109</b>	47,620
Derivative financial instruments	11	<b>262</b>	2,919
Tax liabilities		<b>7,582</b>	6,834
Bank borrowings – due within one year	14	<b>29,217</b>	6,865
		<b>95,170</b>	64,238
<b>NET CURRENT ASSETS</b>		<b>195,241</b>	212,497
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>239,438</b>	260,886

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010 AND 31 DECEMBER 2009

		<b>(Unaudited)</b> <b>30 June</b> <b>2010</b> <b>HK\$'000</b>	(Audited) 31 December 2009 HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>797</b>	801
Bank borrowings – due after one year	14	<b>23,118</b>	16,950
		<b>23,915</b>	17,751
<b>NET ASSETS</b>			
		<b>215,523</b>	243,135
<b>CAPITAL AND RESERVES</b>			
Share capital	15	<b>27,501</b>	28,704
Reserves		<b>178,185</b>	204,940
Equity attributable to owners of the Company		<b>205,686</b>	233,644
Non-controlling interests		<b>9,837</b>	9,491
<b>TOTAL EQUITY</b>			
		<b>215,523</b>	243,135

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2010

	(Unaudited)								
	Share capital	Share premium	Capital redemption reserve	Share option reserve	Total comprehensive income		Attributable to owners of the Company	Non- controlling interests	Total
					Translation reserve	Retained profits			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	28,704	83,398	5,905	4,905	(15)	110,747	233,644	9,491	243,135
Total comprehensive income for the period	-	-	-	-	(24)	1,231	1,207	745	1,952
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	(8)	(8)
Dividends	-	-	-	-	-	(17,938)	(17,938)	-	(17,938)
Shares issued upon exercise of options	280	1,478	-	(550)	-	-	1,208	-	1,208
Repurchase and cancellation of shares	(1,483)	(12,148)	1,483	-	-	-	(12,148)	-	(12,148)
Acquisition of additional equity interest in a subsidiary	-	-	-	-	-	(287)	(287)	(391)	(678)
At 30 June 2010	27,501	72,728	7,388	4,355	(39)	93,753	205,686	9,837	215,523
At 1 January 2009	29,870	82,900	4,639	3,902	49	83,529	204,889	9,291	214,180
Total comprehensive income for the period	-	-	-	-	(66)	5,460	5,394	(218)	5,176
Dividends	-	-	-	-	-	(2,949)	(2,949)	-	(2,949)
Repurchase and cancellation of shares	(439)	-	439	-	-	(1,372)	(1,372)	-	(1,372)
Recognition of equity-settled share based payment	-	-	-	1,494	-	-	1,494	-	1,494
At 30 June 2009	29,431	82,900	5,078	5,396	(17)	84,668	207,456	9,073	216,529

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>(Unaudited)</b> <b>For the six months</b> <b>ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<b>(30,542)</b>	2,552
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<b>(2,903)</b>	2,222
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<b>(358)</b>	7,117
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<b>(33,803)</b>	11,891
CASH AND CASH EQUIVALENTS AT 1 JANUARY		
Bank balances and cash	<b>77,020</b>	47,117
Bank overdrafts	–	(4,852)
Effect of foreign exchange rate changes	<b>(32)</b>	(66)
CASH AND CASH EQUIVALENTS AT 30 JUNE	<b>43,185</b>	54,090
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>43,185</b>	54,090

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1 BASIS OF PREPARATION AND SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

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

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009 except as described below:

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2010 as follows:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKAS 39 (Amendments)	Eligible Hedged Items
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners

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

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendments)	Classification of Rights Issues <sup>2</sup>
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors of the Company anticipate that the application of these new or revised standards, amendments and interpretations will have no significant impact on the results and the financial position of the Group.

## 2 BUSINESS SEGMENTS

For management purposes, the Group's business is currently divided into four segments, namely manufacture and sale of novelties and decorations, manufacture and sale of packaging products, trading of PVC films and plastic materials and manufacture and sale of toy products.

The following is an analysis of the Group's revenue and results by reportable segments:

*For the six months ended 30 June 2010 (Unaudited)*

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>						
External sales	19,334	28,774	30,885	59,614	-	138,607
Inter-segment sales	88	8,449	412	-	(8,949)	-
Total revenue	<u>19,422</u>	<u>37,223</u>	<u>31,297</u>	<u>59,614</u>	<u>(8,949)</u>	<u>138,607</u>
<b>RESULT</b>						
Segment results	<u>2,067</u>	<u>(4,501)</u>	<u>583</u>	<u>5,594</u>	<u>-</u>	<u>3,743</u>
Loss from investments						(1,721)
Unallocated corporate income						117
Finance costs						(121)
Profit before tax						<u>2,018</u>
Income tax expenses						(42)
Profit for the period						<u>1,976</u>

Inter-segment sales are charged at prevailing market rates.

As at 30 June 2010 (Unaudited)

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	89,263	55,930	25,235	62,542	232,970
Unallocated corporate assets					101,638
Consolidated total assets					<u>334,608</u>
LIABILITIES					
Segment liabilities	64,595	10,894	13,125	25,125	113,739
Unallocated corporate liabilities					5,346
Consolidated total liabilities					<u>119,085</u>

#### OTHER INFORMATION

For the six months ended 30 June 2010 (Unaudited)

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
Capital additions	425	1,006	4	1,745	3,180
Depreciation and amortisation	1,333	2,510	27	2,313	6,183
Release of prepaid lease payments	-	-	-	37	37

For the six months ended 30 June 2009 (Unaudited)

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>						
External sales	17,729	37,316	27,017	72,148	–	154,210
Inter-segment sales	1	9,581	993	126	(10,701)	–
Total revenue	<u>17,730</u>	<u>46,897</u>	<u>28,010</u>	<u>72,274</u>	<u>(10,701)</u>	<u>154,210</u>
<b>RESULT</b>						
Segment results	<u>(2,358)</u>	<u>(5,056)</u>	<u>(385)</u>	<u>5,750</u>	<u>(410)</u>	<u>(2,459)</u>
Profit from investments						9,495
Unallocated corporate expenses						(1,560)
Finance costs						(315)
Profit before tax						5,161
Income tax credit						81
Profit for the period						<u>5,242</u>

Inter-segment sales are charged at prevailing market rates.

As at 31 December 2009 (Audited)

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>					
Segment assets	69,944	60,087	15,493	73,710	219,234
Unallocated corporate assets					105,890
Consolidated total assets					<u>325,124</u>
<b>LIABILITIES</b>					
Segment liabilities	41,989	10,514	1,533	19,794	73,830
Unallocated corporate liabilities					8,159
Consolidated total liabilities					<u>81,989</u>

## OTHER INFORMATION

For the six months ended 30 June 2009 (Unaudited)

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
Capital additions	594	1,760	–	1,665	4,019
Depreciation and amortisation	1,781	2,824	27	2,469	7,101
Release of prepaid lease payments	–	–	–	37	37

### Information about major customer

Included in revenues arising from sales of toys products of approximately HK\$59,614,000 (2009: HK\$72,148,000) are revenues of approximately HK\$46,528,000 (2009: HK\$64,097,000) which arose from sales to the Group's largest customer.

## 3 GEOGRAPHICAL SEGMENTS

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

Sales revenue by geographical market:

	<b>(Unaudited)</b> <b>For the six months</b> <b>ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>53,691</b>	57,679
Europe	<b>27,261</b>	25,865
America	<b>15,984</b>	33,434
Asia (other than Hong Kong)	<b>37,879</b>	34,989
Others	<b>3,792</b>	2,243
	<b>138,607</b>	154,210

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

	<b>(Unaudited)</b> <b>30 June</b> <b>2010</b> <b>HK\$'000</b>	(Audited) 31 December 2009 HK\$'000
Hong Kong	<b>186,629</b>	209,162
The People's Republic of China (the "PRC")	<b>147,979</b>	115,962
	<b>334,608</b>	325,124

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

	<b>(Unaudited)</b> <b>For the six months</b> <b>ended 30 June</b> <b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
Hong Kong	<b>7</b>	–
The PRC	<b>3,173</b>	4,019
	<b>3,180</b>	4,019

#### 4 NET OTHER INCOMES

	(Unaudited)	
	For the six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Bad debts recovered	165	–
Rental income	28	44
Interest income	32	34
Dividend income on listed investments	788	402
Realised (loss) gain on disposal of investments held-for-trading	(856)	3,148
Net change in fair value of equity-linked note	–	2,845
Net change in fair value of investments held-for-trading	(5,335)	3,998
Net change in fair value of derivative financial instruments	3,683	(918)
Gain on settlement of derivative financial instruments	–	8
Others	1,949	565
	<b>454</b>	<b>10,126</b>

#### 5 PROFIT BEFORE TAX

Profit before tax has been arrived after charging:

	(Unaudited)	
	For the six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	6,183	7,101
Release of prepaid lease payments	37	37
Loss on disposals of property, plant and equipment	1,047	346

## 6 INCOME TAX (EXPENSES) CREDIT

	(Unaudited) For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	(835)	(736)
PRC Enterprise Income tax	-	(637)
	<u>(835)</u>	<u>(1,373)</u>
Deferred taxation:		
Current year	<u>793</u>	<u>1,454</u>
	<u>(42)</u>	<u>81</u>

Hong Kong Profits Tax is stated at 16.5% (2009: 16.5%) of the estimated assessable profits for the period.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (for both years). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 7 DIVIDENDS

	(Unaudited) For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Final paid:		
HK6.5 cents per share for 2009 (2009: HK1.0 cent per share for 2008)	<u>17,938</u>	<u>2,949</u>

The Directors have resolved to declare an interim dividend of HK1.0 cent (2009: HK1.0 cent) per share.

## 8 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the net profit for the period of approximately HK\$1,231,000 (2009: HK\$5,460,000) and the following data:

	<b>(Unaudited)</b>	
	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2010</b>	2009
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>279,727,122</b>	295,813,960
Effect of dilutive potential ordinary shares : Share options	<b>3,915,719</b>	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>283,642,841</b>	295,813,960

No diluted earnings per share has been presented because the exercise prices of the Company's options were higher than the average market prices of the shares for the period ended 30 June 2009.

## 9 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$3,180,000 (2009: HK\$4,019,000).

## 10 TRADE AND OTHER RECEIVABLES

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

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

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>44,295</b>	35,134
61 – 90 days	<b>7,818</b>	5,207
91 – 120 days	<b>3,195</b>	3,990
Over 120 days	<b>2,070</b>	2,404
	<b>57,378</b>	46,735

## 11 DERIVATIVE FINANCIAL INSTRUMENTS

At 30 June 2010, the major terms of the listed equity decumulators contracts are as follows:

<b>Nominal Amount</b>	<b>Underlying Securities</b>	<b>Maturity</b>	<b>Forward Prices</b>
HK\$9,734,000	Bank of China Limited	14 July 2010	HK\$4.3680
HK\$9,263,000	China Construction Bank Corporation	11 August 2010	HK\$7.4400
HK\$9,938,000	Industrial and Commercial Bank of China Limited	16 August 2010	HK\$6.6300
HK\$9,594,000	China Life Insurance Company Limited	18 August 2010	HK\$40.9900
HK\$9,984,000	China Life Insurance Company Limited	01 September 2010	HK\$41.2500
HK\$7,972,000	China Life Insurance Company Limited	27 January 2011	HK\$40.8800
HK\$8,175,000	China Life Insurance Company Limited	27 January 2011	HK\$40.8728
HK\$6,000,000	China Life Insurance Company Limited	08 February 2011	HK\$40.3200
HK\$7,976,000	China Life Insurance Company Limited	08 February 2011	HK\$40.2000
HK\$9,062,000	China Mobile Limited	09 February 2011	HK\$87.8400
HK\$9,031,000	China Construction Bank Corporation	30 March 2011	HK\$7.2100
HK\$5,116,000	Bank of China Limited	26 May 2011	HK\$4.6700
HK\$5,781,000	China Life Insurance Company Limited	26 May 2011	HK\$40.0300
HK\$5,816,000	China Life Insurance Company Limited	26 May 2011	HK\$40.2700
HK\$5,798,000	China Life Insurance Company Limited	26 May 2011	HK\$40.1500
HK\$6,396,000	CNOOC Limited	26 May 2011	HK\$15.1100
HK\$6,000,000	CNOOC Limited	26 May 2011	HK\$15.0600
HK\$6,176,000	CNOOC Limited	01 June 2011	HK\$15.5013
HK\$5,165,000	China Life Insurance Company Limited	03 June 2011	HK\$40.6700
HK\$5,363,000	China Construction Bank Corporation	20 June 2011	HK\$7.1800

## 12 INVESTMENTS HELD-FOR-TRADING

All investments held-for-trading are equity securities listed in Hong Kong.

The particular of investments held-for-trading as at 30 June 2010 which dominated over 10% of the Group's total assets is as follows:

<b>Name of investee company</b>	<b>Number of shares held</b>	<b>Cost</b> HK\$	<b>Market value</b> HK\$	<b>Unrealised holding loss arising on revaluation</b> HK\$
China Life Insurance Company Limited	1,166,104	44,169,644	39,997,367	(4,172,277)

### 13 TRADE AND OTHER PAYABLES

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

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>28,071</b>	15,377
61 – 90 days	<b>2,335</b>	2,123
91 – 120 days	<b>844</b>	722
Over 120 days	<b>410</b>	522
	<b>31,660</b>	18,744

### 14 BANK BORROWINGS

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Unsecured bank loans	<b>32,383</b>	23,815
Unsecured trust receipt loans	<b>19,952</b>	–
	<b>52,335</b>	23,815

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

	<b>(Unaudited)</b> <b>30 June</b> <b>2010</b> <b>HK\$'000</b>	(Audited) 31 December 2009 HK\$'000
On demand or within one year	<b>29,217</b>	6,865
More than one year, but not exceeding two years	<b>9,265</b>	6,865
More than two years, but not exceeding five years	<b>13,853</b>	10,085
	<b>52,335</b>	23,815
Less: Amount due within one year shown under current liabilities	<b>(29,217)</b>	(6,865)
	<b>23,118</b>	16,950

In 2010, the Group obtained a new bank loan of HK\$12,000,000. The loan bears interest at market rate and is repayable in instalments over a period of 5 years. The proceeds are used to finance the working capital of the Group. Besides, the Group raised new trust receipt loans of approximately HK\$21,259,000 and repaid the trust receipt loans of approximately HK\$1,307,000.

## 15 SHARE CAPITAL

	<b>(Unaudited)</b>			
	<b>Authorised</b>		<b>Issued and fully paid</b>	
	<b>For the six months ended 30 June</b>			
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Ordinary shares of HK\$0.1 each				
At beginning of the period	<b>70,000</b>	70,000	<b>28,704</b>	29,870
Issue of shares on exercise of options	-	-	<b>280</b>	-
Share repurchased and cancelled	-	-	<b>(1,483)</b>	(439)
At end of the period	<b>70,000</b>	70,000	<b>27,501</b>	29,431

## 16 COMMITMENTS

### (a) Capital commitments for property, plant and equipment

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	<b>3,174</b>	422
Authorised but not contracted for	<b>84</b>	204
	<b>3,258</b>	626

### (b) Operating lease commitments

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

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>5,799</b>	5,306
Over 1 year but within 5 years	<b>11,770</b>	11,972
Over five years	<b>33,935</b>	34,761
	<b>51,504</b>	52,039

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

## 17 OTHER COMMITMENTS

At 30 June 2010, the Group carried outstanding decumulator contracts which entitled commitments for the disposal of listed securities of approximately HK\$88,791,000 (31 December 2009: HK\$85,108,000). All listed securities to be disposed of are now held by the Group for trading purposes, which are in the custody of the relevant financial institutions.

## 18 CONTINGENT LIABILITIES

### (a) Contingent liability in respect of legal claim

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

### (b) Financial guarantees issued

As at the end of the reporting period, 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 30 June 2010, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees as the probability of default payment for the loans drawn down by the subsidiaries is remote.

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

## 19 RELATED PARTY TRANSACTIONS

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

	<b>(Unaudited)</b>	
	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Rental expenses paid to:		
Mr. Poon Siu Chung	<b>120</b>	120

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

## 20 EVENTS AFTER THE REPORTING PERIOD

- (a) Subsequent to period end, the Company has purchased 3,218,000 Shares of its own shares through the Stock Exchange:

	<b>No. of shares of HK\$0.10 each</b>	<b>Price per share</b>		<b>Aggregate Consideration Paid</b>
		<b>Highest</b>	<b>Lowest</b>	
		HK\$	HK\$	HK\$
9 Jul 2010	418,000	0.740	0.710	306,705
19 Jul 2010	494,000	0.760	0.750	375,281
21 Jul 2010	390,000	0.740	0.740	290,617
26 Jul 2010	1,446,000	0.780	0.770	1,132,898
28 Jul 2010	470,000	0.750	0.750	354,948
	<b>3,218,000</b>			<b>2,460,449</b>

- (b) On 26 August 2010, all decumulators contracts with underlying securities of China Life Insurance Company Limited, as stated in Note (11), had been expired or terminated as a result of the daily closing price of the underlying securities had been at or below the knock-out level.

## 21 ACQUISITION OF ADDITIONAL EQUITY INTEREST IN A SUBSIDIARY

On 1 February 2010, the Group acquired 10% equity interest in its subsidiary, Perfectech Printing Company Limited, for an aggregate consideration of HK\$678,000. The unaudited net assets of the subsidiary at the date of acquisition were approximately HK\$391,000. After the acquisition, the subsidiary became a wholly owned subsidiary of the Group.

## SHARE OPTION SCHEME

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

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

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of adoption of the Scheme. 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 shareholders.

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

All options were vested on the date of grant.

The exercise price is determined by the board of Directors 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 20,800,000, representing approximately 7.54% of the shares of the Company in issue at that date.

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

	Number of options outstanding at 1/1/2010	Number of options granted during the period	Number of shares issued and exercise of options during the period	Number of options outstanding at 30/6/2010	Date granted	Exercise price per share HK\$	Exercisable Period
Directors							
- Ip Siu On	1,000,000	-	-	1,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
	900,000	-	(900,000)	-	20-May-09	0.375	01-Jun-09 to 31-Dec-18
- Tsui Yan Lee, Benjamin	1,000,000	-	-	1,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
	1,000,000	-	-	1,000,000	14-Oct-08	0.389	01-Nov-08 to 31-Dec-17
	900,000	-	(500,000)	400,000	20-May-09	0.375	01-Jun-09 to 31-Dec-18
- Yip Chi Hung	300,000	-	(300,000)	-	02-Nov-07	0.850	01-Dec-07 to 31-Dec-16
- Lam Yat Cheong	300,000	-	-	300,000	02-Nov-07	0.850	01-Dec-07 to 31-Dec-16
- Choy Wing Keung, David	300,000	-	-	300,000	02-Nov-07	0.850	01-Dec-07 to 31-Dec-16

	Number of options outstanding at 1/1/2010	Number of options granted during the period	Number of shares issued and exercise of options during the period	Number of options outstanding at 30/6/2010	Date granted	Exercise price per share HK\$	Exercisable Period
Employees	4,500,000	-	-	4,500,000	24-Mar-06	0.540	24-Apr-06 to 31-Dec-14
	8,200,000	-	-	8,200,000	02-Nov-07	0.850	01-Dec-07 to 31-Dec-16
	3,500,000	-	(1,100,000)	2,400,000	14-Oct-08	0.389	01-Nov-08 to 31-Dec-17
	3,900,000	-	-	3,900,000	20-May-09	0.375	01-Jun-09 to 31-Dec-18
	<u>25,800,000</u>	<u>-</u>	<u>(2,800,000)</u>	<u>23,000,000</u>			
Others	1,000,000	-	-	1,000,000	05-Jun-02	0.664	05-Jul-02 to 17-May-12
	1,000,000	-	-	1,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>			
Grand Total	<u>27,800,000</u>	<u>-</u>	<u>(2,800,000)</u>	<u>25,000,000</u>			

The closing price of the Company's shares on 5 June 2002, 2 February 2005, 24 March 2006, 2 November 2007, 14 October 2008 and 20 May 2009, the dates of grant of the options, were HK\$0.64, HK\$0.60, HK\$0.52, HK\$0.85, HK\$0.335 and HK\$0.375 respectively.

Share options were exercised on 17 May 2010, 26 May 2010, 14 June 2010 and 17 June 2010, the weighted average closing price of the Company's shares immediately before those dates was HK\$0.8236.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 30 June 2010, 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 by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

### (A) Long Positions in interests of the Company

Directors	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner	17,164,000	-		
	Interest of controlled corporation	101,139,430	-	118,303,430 (a)	43.02
Mr. Ip Siu On	Beneficial owner	6,925,600	1,000,000 (b)	7,925,600	2.88
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	2,111,000	2,400,000 (b)	4,511,000	1.64
Mr. Yip Chi Hung	Interest of controlled corporation	2,800,000 (c)	-		
	Beneficial owner	300,000	-	3,100,000	1.13
Mr. Lam Yat Cheong	Beneficial owner	-	300,000 (b)	300,000	0.11
Mr. Choy Wing Keung, David	Beneficial owner	-	300,000 (b)	300,000	0.11

#### Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 17,164,000 shares ("Shares") of the Company and he was deemed to be interested in 101,139,430 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 respectively.

- (b) These interests represented interest in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, details of which are set out in the section "Share Option Scheme" of this report.
- (c) Mr. Yip Chi Hung was the beneficial owner of 300,000 shares and was deemed to be interested in 2,800,000 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

<b>Directors</b>	<b>Name of associated corporation</b>	<b>Capacity</b>	<b>No. of shares held</b>	<b>Total</b>	<b>% of issued share capital of associated corporation</b>
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner	200		
		Interest of spouse	200	400 (d)	50
	Sunflower Garland Manufactory Limited	Beneficial owner	60,800		
		Interest of spouse	20,800	81,600 (e)	51
Mr. Ip Siu On	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18
Mr. Tsui Yan Lee, Benjamin	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18

Notes:

- (d) Mr. Poon Siu Chung was the beneficial owner of 200 non-voting deferred shares ("Perfectech Shares") of HK\$100 each in Perfectech International Limited, a subsidiary of the Company, and was deemed to be interested in 200 Perfectech Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (e) Mr. Poon Siu Chung was the beneficial owner of 60,800 non-voting deferred shares ("Sunflower Shares") of HK\$1 each in Sunflower Garland Manufactory Limited, a subsidiary of the Company, and was deemed to be interested in 20,800 Sunflower Shares through interests of his spouse, Ms. Lau Kwai Ngor.

Details of the directors, or their associates, interests in the share options of the Company or any of its associated corporations are set out in the “Share Option Scheme” 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 debentures of the Company or any of its associated corporations as at 30 June 2010 as defined in the SFO.

## CHANGES IN DIRECTORS’ BIOGRAPHICAL DETAILS

Changes in Directors’ biographical details since the date of the Annual Report 2009, which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, are that salary packages of three of the executive Directors, Mr. Poon Siu Chung, Mr. Ip Siu On and Mr. Tsui Yan Lee, Benjamin were adjusted as follows with effect from 1 May 2010, while other terms of employment remained unchanged:

<b>Director</b>	<b>Annual salaries &amp; allowances</b>	<b>Performance bonus</b>
Mr. Poon Siu Chung	HK\$1,200,000	2% on Group’s net profit in excess of HK\$10,000,000
Mr. Ip Siu On	HK\$1,080,000	6% on net profits after tax from Packaging Products Segment and PVC Films and Plastic Materials Segment
Mr. Tsui Yan Lee, Benjamin	HK\$1,080,000	6% on net profits after tax from Novelties and Decorations Segment

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section “Directors’ Interests in Shares and Options”, as at 30 June 2010, the register of substantial shareholders’ interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the share capital of the Company as follows:

## Long Positions in shares of the Company

<b>Shareholders</b>	<b>Capacity</b>	<b>No. of shares held</b>	<b>Total</b>	<b>% of issued share capital of the Company</b>
Ms. Lau Kwai Ngor	Interest of spouse	17,164,000		
	Interest of controlled corporation	101,139,430	118,303,430 (a)	43.02
Mime Limited	Beneficial owner	101,139,430	101,139,430 (a)	36.78
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	22.94
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	22.94
Nielsen Limited	Beneficial owner	63,097,200	63,097,200 (b)	22.94

### Notes:

- (a) Under SFO, Ms. Lau Kwai Ngor was deemed to be interested in 118,303,430 shares of the Company through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 17,164,000 shares of the Company and he was deemed to be interested in 101,139,430 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.
- (b) Under SFO, Mr. Leung Ying Wai, Charles and his spouse, Ms. Tai Yee Foon were deemed to be interested in 63,097,200 shares of the Company, 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Interim Dividend

The Directors have resolved to declare an interim dividend of HK1.0 cent per share (2009: HK1.0 cent per share) for the six months ended 30 June 2010 payable on or about 6 October 2010 to shareholders whose names appear on the register of members of the Company (the "Register of Members") on 22 September 2010.

### Closure of Register of Members

The Register of Members will be closed from 20 September 2010 to 22 September 2010, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed interim dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 17 September 2010.

### Business Review

During the period under review, the total revenue of the Group stood at approximately HK\$138,607,000 (2009: HK\$154,210,000), representing a decrease of about 10%, and recorded a profit attributable to owners of the Company of approximately HK\$1,231,000 (2009: HK\$5,460,000), representing a decrease of about 77%.

For the first half of 2010, the contribution from the core business of the Group recorded a gain of approximately HK\$3,743,000 (2009: loss of HK\$2,459,000), representing an improvement of the results from core business. Detailed performance of each segment of the core business will be discussed below.

Included in the profit for the period was the loss from investment of approximately HK\$1,721,000 (2009: profit of HK\$9,495,000), details of the loss from investments will be further analysed below. Besides, administrative expenses dropped substantially by about 42% to approximately HK\$12,452,000 (2009: HK\$21,558,000). Such decrease was mainly due to the decrease in provision of doubtful debts and staff costs which included, amongst other things, the write-back of approximately HK\$2,800,000 (2009: nil) of over-provision of discretionary bonus in previous years and no share-based payments expenses incurred (2009: HK\$1,494,000) as no option granted during the period under review.

### *Novelties and decorations*

The revenue of the novelties and decorations segment increased by about 9% amounting to approximately HK\$19,334,000 (2009: HK\$17,729,000), and recorded a gain of approximately HK\$2,067,000 (2009: loss of HK\$2,358,000). Included in the gain was an amount of approximately HK\$1,800,000 (2009: nil) of write-back of over-provision of discretionary bonus in previous years. Nevertheless, despite this item, the segment still resumed to contribute positive results in the first half of the year. The results of the segment are expected to be further improved in the second half of the year when in line with the seasonal trend shipments take place.

### *Packaging products*

The revenue in the packaging segment dropped further by about 23% amounting to HK\$28,774,000 (2009: HK\$37,316,000), and recorded a loss of approximately HK\$4,501,000 (2009: HK\$5,056,000). Included in the loss was an amount of approximately HK\$1,000,000 (2009: nil) of write-back of over-provision of discretionary bonus in previous years. As certain business in this segment had been terminated, revenue dropped as expected. Together with the costs of removal of certain production facilities from Shenzhen to Zhongshan, overall loss of the segments continued. However, as the relocation of production facilities had been completed in July 2010, further expenses incurred for the relocation were not material. The scale of this segment would become more optimal and hence improvement in performance is expected.

### *PVC films and plastic materials*

The revenue of the segment increased by about 14% to approximately HK\$30,885,000 (2009: HK\$27,017,000), and the results of the segment also showed a gain of approximately HK\$583,000 (2009: loss of HK\$385,000). The revenue and results of the segment tended to be stable as the Group's policy to maintain the segment for strategic purposes.

### *Toy products*

The revenue of the segment decreased by about 17% amounting to approximately HK\$59,614,000 (2009: HK\$72,148,000), and recorded a profit of HK\$5,594,000 (2009: HK\$5,750,000), representing a slight decrease of about 3%. The segment continued to be the best performing one within the Group. Although certain costs of production increased since last year in certain sub-segment, the overall cost control and production efficiency of the segment still achieved a satisfactory result.

## *Investments*

To better utilize the available cash on hand, the Group has invested in the listed securities of Hong Kong and related derivative products, including but not limited to equity linked deposits. During the period, loss from investments from aforesaid transactions amounted to approximately HK\$1,721,000 (2009: gain of HK\$9,495,000) as a result of the slow-down of the expected global economic growth. Such loss consisted of, among other things, the realized loss on disposal of investments held-for-trading of approximately HK\$856,000 (2009: gain of HK\$3,148,000), the decrease in fair value of investments held-for trading of approximately HK\$5,335,000 (2009: increase of HK\$3,998,000) and the increase in fair value of derivative financial instruments of approximately HK\$3,683,000 (2009: decrease of HK\$918,000).

Investments held-for-trading are usually held for short-term purposes for capital gain in the value of the assets held. As at the reporting date, the market value of investment in securities was approximately HK\$84,255,000 (31 December 2009: HK\$92,996,000).

As at 30 June 2010, the Group carried outstanding forward contracts which entitled commitments for the disposal of listed securities of approximately HK\$88,791,000 (31 December 2009: HK\$85,108,000). All listed securities to be disposed of are now held by the Group for trading purposes, which are in the custody of the relevant financial institutions.

Details of the guidelines on investment transactions of the Group are posted on the Company's website, [www.perfectech.com.hk](http://www.perfectech.com.hk).

## FUTURE PLAN AND PROSPECT

Looking ahead, the commercial environment, financial market and economic atmosphere will all become more complicated and unpredictable. The Group needs to change and innovate in order to survive. First of all, we plan to develop our own brand name and trademark in order to add value to our products. Secondly, we also plan to launch our products in the domestic market together with the mainland market. New items with more innovative ideas and techniques are under feasibility study.

As usual and with available funds on hand, the Group will continue to search for investment opportunities and utilize them to invest in the stock market in Hong Kong to enhance the returns to the shareholders.

With expected improvements of the performance of the core business in the second half of the year, the Directors are confident that shareholders of the Company will enjoy a beneficial return.

### *Liquidity and financial resources*

As at 30 June 2010, the long-term bank borrowings of the Group were HK\$23,118,000 (31 December 2009: HK\$16,950,000), while the short-term bank borrowings were approximately HK\$29,217,000 (31 December 2009: HK\$6,865,000), and none of the Group's plant and machinery (31 December 2009: nil) was held under a finance lease. The gearing ratio of the Group, measured by total bank and other borrowings divided by equity attributable to owners of the Company, was approximately 25% (31 December 2009: 10%).

### *Finance costs*

The Group's finance cost amounted to approximately HK\$121,000 (2009: HK\$315,000).

### *Pledge of Assets*

As at 30 June 2010, the following assets were pledged to secure the margin loan facilities granted to the Group:

- (i) Investments held-for-trading with a carrying value of approximately of HK\$84,255,000 (31 December 2009: HK\$92,996,000); and
- (ii) Bank balances and cash of approximately HK\$4,132,000 (31 December 2009: HK\$793,000).

No margin loan facilities were utilised by the Group as at the reporting date. The margin loan facilities were charged at variable market rates.

### *Net asset value*

The net asset value of the Group as at 30 June 2010 was approximately HK\$0.78 (31 December 2009: HK\$0.85) per share based on the actual number of 275,005,607 shares in issue on that date.

## *Employees and remuneration policies*

As at 30 June 2010, the Group employed approximately 2,600 (2009: 3,500) full time employees. The Group remunerates its employees by reference to the prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its employees.

## *Foreign currency exposure*

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

Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exposure in this area, and will closely monitor the trend of Renminbi to see if any action is required.

As at the reporting date, the Group did not enter into any financial instrument for the hedging of exposure in foreign currencies.

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

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

	No. of shares of HK\$0.10 each	Price per share		Aggregate
		Highest HK\$	Lowest HK\$	consideration paid HK\$
Month of repurchase				
January 2010	3,926,000	0.740	0.680	2,814,364
February 2010	2,280,000	0.730	0.700	1,636,689
April 2010	4,790,000	0.950	0.900	4,467,264
May 2010	2,066,000	0.890	0.840	1,812,629
June 2010	1,770,000	0.860	0.740	1,417,070
	<hr/>			<hr/>
	14,832,000			12,148,016

## CORPORATE GOVERNANCE

### Compliance with the Code on Corporate Governance

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

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

#### *Code A.2.1*

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

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

### Model Code for Securities Transactions by Directors

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

After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding Directors’ securities transactions during the six months ended 30 June 2010.

## Audit Committee

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 of the Company now reported on.

## Remuneration Committee

The remuneration committee makes recommendations to the Board on the Company’s policy and structure of remuneration for the Directors and senior management.

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

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

## DIRECTORS OF THE COMPANY

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

On behalf of the Board

**Poon Siu Chung**

*Chairman & Managing Director*

Hong Kong, 30 August 2010