# PERFECTECH INTERNATIONAL HOLDINGS LIMITED
## （威發國際集團有限公司）*

(the "Company")

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 00765)

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

## RESULTS

The board of directors (the "Board") of Perfectech International Holdings Limited (the "Company") hereby announces that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 and the comparative figures in 2009 were as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December*

| | *Notes* | **2010** *HK$'000* | 2009 *HK$'000* |
|---|---|---|---|
| Revenue | 3 & 4 | **382,779** | 404,606 |
| Cost of sales | | **(323,020)** | (327,925) |
| Gross profit | | **59,759** | 76,681 |
| Net other income | 5 | **10,248** | 24,905 |
| Distribution costs | | **(14,279)** | (14,720) |
| Administrative expenses | | **(33,699)** | (40,349) |
| Finance costs | 6 | **(488)** | (675) |
| Profit before tax | 7 | **21,541** | 45,842 |
| Income tax expenses | 8 | **(154)** | (7,156) |
| Profit for the year | | **21,387** | 38,686 |

| | Notes | **2010** | 2009 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Other comprehensive income (expenses) | | | |
| Exchange difference on translation of overseas operations | | **103** | (64) |
| Total comprehensive income for the year | | **21,490** | 38,622 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **20,175** | 37,776 |
| Non-controlling interests | | **1,212** | 910 |
| Profit for the year | | **21,387** | 38,686 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **20,268** | 37,712 |
| Non-controlling interests | | **1,222** | 910 |
| Total comprehensive income for the year | | **21,490** | 38,622 |
| Dividends | 9 | **20,688** | 5,822 |
| Earnings per share | 10 | | |
| Basic | | **7.27 Cents** | 12.95 Cents |
| Diluted | | **7.15 Cents** | 12.88 Cents |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December*

| | Notes | 2010 HK$'000 | 2009 HK$'000 (Restated) |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **38,567** | 46,163 |
| Prepaid lease payments | | **–** | 6 |
| Deferred tax assets | | **2,168** | 2,221 |
| | | **40,735** | 48,390 |
| CURRENT ASSETS | | | |
| Inventories | | **57,432** | 50,157 |
| Trade and other receivables | 11 | **58,944** | 55,134 |
| Prepaid lease payments | | **6** | 74 |
| Tax recoverable | | **370** | 462 |
| Investments held-for-trading | | **72,910** | 92,996 |
| Derivative financial instruments | | **248** | 98 |
| Pledged bank deposits | | **4,818** | 793 |
| Bank balances and cash | | **72,487** | 77,020 |
| | | **267,215** | 276,734 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 12 | **45,556** | 47,620 |
| Derivative financial instruments | | **3,009** | 2,919 |
| Tax liabilities | | **2,347** | 6,834 |
| Bank borrowings | | **27,750** | 23,815 |
| | | **78,662** | 81,188 |
| NET CURRENT ASSETS | | **188,553** | 195,546 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **229,288** | 243,936 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | **827** | 801 |
| NET ASSETS | | **228,461** | 243,135 |
| CAPITAL AND RESERVES | | | |
| Share capital | | **27,521** | 28,704 |
| Reserves | | **191,682** | 204,940 |
| Equity attributable to owners of the Company | | **219,203** | 233,644 |
| Non-controlling interests | | **9,258** | 9,491 |
| TOTAL EQUITY | | **228,461** | 243,135 |

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2010*

### 1. BASIS OF PREPARATION

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

### 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") have been applied by the Group in the current year and have affected the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements. The impact of the application of the new HKFRSs is discussed below.

**Amendments to HKFRS 7 Financial Instruments: Disclosures (as part of Improvements to HKFRSs issued in 2010)**

The amendments to HKFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

**Amendments to HKAS 17 Leases**

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incident to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant, and equipment retrospectively. This resulted in prepaid lease payments with the carrying amounts of HK$56,000 and HK$54,000 as at 1 January 2009 and 31 December 2009 respectively being reclassified to property, plant and equipment.

As at 31 December 2010, leasehold land that qualifies for finance lease classification with the carrying amount of HK$52,000 has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

**Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause**

Hong Kong Interpretations 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$16,950,000 and HK$23,814,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2009 and 1 January 2009 respectively. As at 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate of HK$18,486,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities.

**New and revised standards, amendments and interpretations applied with no material effects on the consolidated financial statements**

The following new HKFRSs have been also applied in these consolidated financial statements. The application of these new HKFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

| | |
|---|---|
| Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters | The amendments provide two exemptions when adopting HKFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease. |
| Amendments to HKFRS 2 Share – based Payment – Group Cash-settled Share-based Payment Transactions | The amendments clarify the scope of HKFRSs, as well as payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. |
| Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to HKFRSs issued in 2008) | The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale. |

| | |
|---|---|
| Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to HKFRSs issued in 2009) | The amendments to HKFRS 5 clarify that the discourse requirements in HKFRSs other than HKFRS 5 do not apply to non-current assets (or disposal group) classified as held for sale or discontinued operations unless those HKFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of HKFRS 5 and the disclosures are not already provided in the consolidated financial statements. |
| Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2009) | The amendments to HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. |
| Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010) | The amendments to HKAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). |
| Amendments to HKAS 7 Statement of Cash Flows (as part of Improvements to HKFRSs issued in 2009) | The amendments to HKAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to HKAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in HKAS 38 Intangible Assets for capitalisation as part of an internally generated intangible asset in the consolidated statement of cash flows. |

| | |
|---|---|
| Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items | The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options. |
| HK(IFRIC) – Int 17 Distributions of Non-cash Assets to Owners | The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. |
| HK(IFRIC) – Int 18 Transfers of Assets from Customers | The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with HKAS 18 Revenue. |
| Improvements to HKFRSs issued in 2009 | Except for the amendments to HKFRS 7 and HKAS 17 as described earlier, the application of Improvements to HKFRSs issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements. |

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1] |
| HKFRS 1 (Amendments) | Limited Exception from Comparative HKFRS 7 Disclosures for First-time Adopters[3] |
| HKFRS 9 (Revised) | Financial Instruments[5] |
| HKAS 24 (as revised in 2009) | Related Party Disclosures[4] |
| HKAS 32 (Amendments) | Classification of Rights Issues[2] |
| HK(IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[4] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate

2 Effective for annual periods beginning on or after 1 February 2010

3 Effective for annual periods beginning on or after 1 July 2010

4 Effective for annual periods beginning on or after 1 January 2011

5 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial instruments (as revised in November 2010 adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9 all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specially, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount if change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may have significant impact on amounts reported in respect of the Groups' financial assets. However it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfer of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposure when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously affected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact in the classification of those rights issues.

HK(IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

## 3. 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.

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Novelties and decorations products | **97,985** | 99,887 |
| Packaging products | **63,057** | 76,639 |
| PVC films and plastic materials | **65,360** | 51,582 |
| Toys products | **156,377** | 176,498 |
| | **382,779** | 404,606 |

## 4. SEGMENTS REPORTING

For management purposes, the Group is currently organised into four operating 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.

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

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Novelties and decorations products** | **Packaging products** | **PVC films and plastic materials** | **Toy products** | **Eliminations** | **Consolidated** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| REVENUE | | | | | | |
| External sales | **97,985** | **63,057** | **65,360** | **156,377** | **–** | **382,779** |
| Inter-segment sales | **88** | **19,371** | **1,063** | **–** | **(20,522)** | **–** |
| Total revenue | **98,073** | **82,428** | **66,423** | **156,377** | **(20,522)** | **382,779** |
| RESULT | | | | | | |
| Segment result | **2,395** | **436** | **1,546** | **10,826** | **–** | **15,203** |
| Income from investments | | | | | | **4,749** |
| Unallocated corporate income | | | | | | **2,077** |
| Finance costs | | | | | | **(488)** |
| Profit before tax | | | | | | **21,541** |
| Income tax expenses | | | | | | **(154)** |
| Profit for the year | | | | | | **21,387** |

Inter-segment sales are charged at prevailing market rates.

| | 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 | **63,862** | **60,305** | **21,591** | **77,832** | **223,590** |
| Unallocated corporate assets | | | | | **84,360** |
| Consolidated total assets | | | | | **307,950** |
| LIABILITIES | | | | | |
| Segment liabilities | **42,291** | **6,094** | **4,167** | **21,623** | **74,175** |
| Unallocated corporate liabilities | | | | | **5,314** |
| Consolidated total liabilities | | | | | **79,489** |

| | Novelties and decorations products HK$'000 | Packaging products HK$'000 | PVC films and plastic materials HK$'000 | Toy products HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Additions of property, plant and equipment | **705** | **1,735** | **7** | **4,966** | **7,413** |
| Depreciation and amortisation | **2,581** | **4,304** | **54** | **4,590** | **11,529** |
| Release of prepaid lease payments | **–** | **–** | **–** | **74** | **74** |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 99,887 | 76,639 | 51,582 | 176,498 | – | 404,606 |
| Inter-segment sales | 39 | 22,152 | 1,863 | 189 | (24,243) | – |
| Total revenue | 99,926 | 98,791 | 53,445 | 176,687 | (24,243) | 404,606 |
| RESULT | | | | | | |
| Segment result | 4,882 | (8,281) | 860 | 26,228 | – | 23,689 |
| Income from investments | | | | | | 21,477 |
| Unallocated corporate income | | | | | | 1,351 |
| Finance costs | | | | | | (675) |
| Profit before tax | | | | | | 45,842 |
| Income tax expenses | | | | | | (7,156) |
| Profit for the year | | | | | | 38,686 |

Inter-segment sales are charged at prevailing market rates.

| | 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 | 69,944 | 60,087 | 15,493 | 73,710 | 219,234 |
| Unallocated corporate assets | | | | | 105,890 |
| Consolidated total assets | | | | | 325,124 |
| LIABILITIES | | | | | |
| Segment liabilities | 41,989 | 10,514 | 1,533 | 19,794 | 73,830 |
| Unallocated corporate liabilities | | | | | 8,159 |
| Consolidated total liabilities | | | | | 81,989 |

| | Novelties and decorations products HK$'000 | Packaging products HK$'000 | PVC films and plastic materials HK$'000 | Toy products HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Additions of property, plant and equipment | 1,312 | 2,472 | – | 2,415 | 6,199 |
| Depreciation and amortisation | 3,319 | 5,738 | 55 | 4,947 | 14,059 |
| Release of prepaid lease payments | – | – | – | 73 | 73 |

Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' salaries, investment and other income, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments other than those assets and liabilities related to central administration.

### Geographical Information

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

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Sales revenue by geographical market: | | |
| Hong Kong | **149,726** | 147,382 |
| Europe | **93,485** | 122,083 |
| America | **63,074** | 72,164 |
| Asia (other than Hong Kong) | **62,998** | 52,350 |
| Others | **13,496** | 10,627 |
| | **382,779** | 404,606 |

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 | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | **191,402** | 209,162 | **13** | 110 |
| The People's Republic of China (the "PRC") | **116,548** | 115,962 | **7,400** | 6,089 |
| | **307,950** | 325,124 | **7,413** | 6,199 |

*Information about major customer*

Included in revenues arising from sales of toy products of approximately HK$156,377,000 (2009: HK$176,498,000) are revenues of approximately HK$117,702,000 (2009: HK$152,579,000) which arose from sales to the Group's largest customer.

## 5. NET OTHER INCOME

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bad debt recovered | **759** | 719 |
| Dividend incomes on investments held-for-trading | **2,661** | 1,211 |
| Gain on settlement of equity-linked note | **–** | 2,845 |
| Gain on disposal of property, plant and equipment | **–** | 1 |
| Interest income | **54** | 62 |
| Net change in fair value of investments held-for-trading | **1,967** | 12,369 |
| Net change in fair value of derivative financial instruments | **60** | (2,310) |
| Rental income | **608** | 221 |
| Realised gain on disposal of investments held-for-trading | **53** | 6,606 |
| Sample sales | **342** | 758 |
| Scrap sales | **2,242** | 1,296 |
| Others | **1,502** | 1,127 |
| | **10,248** | 24,905 |

## 6. FINANCE COSTS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **488** | 675 |

## 7. PROFIT BEFORE TAX

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Profit before tax has been arrived at after charging: | | |
| Auditors' remuneration | **800** | 750 |
| Allowance for doubtful debts | **55** | 1,090 |
| Cost of inventories recognised as an expense | **191,989** | 181,744 |
| Depreciation of property, plant and equipment | **11,529** | 14,059 |
| Foreign exchange losses, net | **7,207** | 6,005 |
| Impairment loss on other receivables | **–** | 297 |
| Loss on disposals of property, plant and equipment | **1,258** | – |
| Operating lease rentals in respect of rented premises | **5,511** | 5,559 |
| Release of prepaid leases prepayments | **74** | 73 |
| Share-based payments expenses | **–** | 1,226 |
| Staff costs (including Directors' emoluments) | **85,852** | 94,483 |
| Written down of inventories | **–** | 3,531 |

## 8. INCOME TAX EXPENSES

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| The charge comprises: | | |
| Current tax: | | |
| Hong Kong Profits Tax | **2,224** | 6,583 |
| PRC Enterprise Income Tax | **–** | 131 |
| | **2,224** | 6,714 |
| (Over) under provision in prior years: | | |
| Hong Kong Profits Tax | **(2,149)** | 1,385 |
| | **75** | 8,099 |
| Deferred tax: | | |
| Current year | **79** | (943) |
| | **154** | 7,156 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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.

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Profit before tax | **21,541** | 45,842 |
| Tax at Hong Kong Profits Tax of 16.5% | **3,554** | 7,564 |
| Tax effect of income not taxable for tax purposes | **(2,399)** | (7,548) |
| Tax effect of expenses not deductible for tax purposes | **1,258** | 5,375 |
| Tax effect on temporary differences not recognised | **(1)** | – |
| Tax effect on tax losses not recognised | **47** | 492 |
| Utilisation of tax losses not previously recognised | **(11)** | (94) |
| (Over) under -provision in prior year | **(2,149)** | 1,385 |
| Effect of different tax rates of group entities operating in the PRC | **(145)** | (18) |
| Tax charge for the year | **154** | 7,156 |

## 9. DIVIDENDS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim, paid – 1.0 HK cent (2009: 1.0 HK cent) per share | **2,750** | 2,873 |
| Final, paid – 6.5 HK cents per share for 2009 (2009: 1.0 HK cent per share for 2008) | **17,938** | 2,949 |
| | **20,688** | 5,822 |

Subsequent to the end of the reporting period, final dividend of 2.5 HK cents (2009: 6.5 HK cents) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting.

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the net profit for the year of approximately HK$20,175,000 (2009: HK$37,776,000) and the following data:

| | **2010** | 2009 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **277,627,214** | 291,710,176 |
| Effect of dilutive potential ordinary shares on share options | **4,671,307** | 1,472,602 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **282,298,521** | 293,182,778 |

## 11. TRADE AND OTHER RECEIVABLES

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade receivables | **67,757** | 63,513 |
| Less: impairment loss on trade receivables | **(15,696)** | (16,778) |
| | **52,061** | 46,735 |
| Prepayment and other receivables | **6,883** | 8,399 |
| | **58,944** | 55,134 |

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 by age, presented based on the invoice date and net of allowance for doubtful debts at the end of the reporting period:

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 – 60 days | **37,384** | 35,134 |
| 61 – 90 days | **6,394** | 5,207 |
| 91 – 120 days | **3,622** | 3,990 |
| Over 120 days | **4,661** | 2,404 |
| | **52,061** | 46,735 |

Trade receivables disclosed above include amounts which are past due at the end of reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The following is an aging analysis of the Group's trade receivables that are past due but not impaired at the end of the reporting period:

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Overdue by: | | |
| 0 – 60 days | **3,723** | 3,005 |
| 61 – 90 days | **1,138** | 27 |
| 91 – 120 days | **19** | 245 |
| Over 120 days | **37** | 366 |
| | **4,917** | 3,643 |

The following is the movement in the allowance for doubtful debts:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **16,778** | 16,736 |
| Allowance for doubtful debts during the year | **55** | 1,090 |
| Amounts recovered during the year | **(759)** | (719) |
| Amounts written off during the year | **(378)** | (329) |
| Balance at end of the year | **15,696** | 16,778 |

The fair value of the Group's trade and other receivables at 31 December 2010 approximate to the corresponding carrying amount.

The following is an aging analysis of the Group's impaired trade receivables:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Overdue by: | | |
| 0 – 60 days | **–** | 180 |
| 61 – 90 days | **–** | 154 |
| 91 – 120 days | **–** | 53 |
| Over 120 days | **15,696** | 16,391 |
| | **15,696** | 16,778 |

## 12. TRADE AND OTHER PAYABLES

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 60 days | **19,870** | 15,377 |
| 61 – 90 days | **979** | 2,123 |
| 91 – 120 days | **128** | 722 |
| Over 120 days | **355** | 522 |
| | **21,332** | 18,744 |

The fair value of the Group's trade and other payables at 31 December 2010 approximates to the corresponding carrying amount.

## RESULTS

The board of directors of the Company (the "Board") has resolved to announce the audited consolidated financial results for the year ended 31 December 2010. Total revenue for the year amounted to approximately HK$382,779,000 (2009: HK$404,606,000). The net profit for the year stood at approximately HK$20,175,000 (2009: HK$37,776,000). Basic earnings per share was approximately 7.27 HK cents (2009: 12.95 HK cents).

## FINAL DIVIDEND

The Board recommends the payment of a final dividend for the year ended 31 December 2010 of 2.5 HK cents per share (2009: 6.5 HK cents per share) payable to shareholders on the register of members of the Company (the "Register of Members") on 25 May 2011. This dividend together with the interim dividend of 1.0 HK cent per share (2009: 1.0 HK cent per share) will make a total of 3.5 HK cents per share for the year (2009: 7.5 HK cents per share). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on or about 08 June 2011.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 24 May 2011 to 25 May 2011, 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 2011.

## BUSINESS REVIEW

For China and Hong Kong, the year 2010 was a prosperous year, economic recovery progressed steadily. However, for the USA and European countries, they were still striving to resolve their own financial issues. Hence, the USA government continued the policy of quantitative easing which results in the relatively cheap costs of funds, leading to rise in prices of various commodities.

During the year, the revenue of the Group decreased gently by approximately 5% to approximately HK$382,779,000 (2009: HK$404,606,000), and the Group recorded a net profit attributable to owners of the Company of approximately HK$20,175,000 (2009: HK$37,776,000), representing a decrease of about 47%. The decrease in profitability of the Group was mainly due to both the decrease in profit margin of the core business and investment income.

For the year 2010, the profit of the Group included profit on the disposal of investments held-for-trading of approximately HK$53,000 (2009: HK$6,606,000), gain arising from the increase in fair value of investments held-for-trading of approximately HK$1,967,000 (2009: HK$12,369,000), increase in fair value of derivative financial instruments of approximately HK$60,000 (2009: decrease of HK$2,310,000).

Besides, administrative expenses dropped by about 16% to approximately HK$33,699,000 (2009: HK$40,349,000). Such decrease was mainly due to the decrease in provision of doubtful debts and staff costs which was attributable, 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 were incurred (2009: HK$1,226,000) as no option was granted during the year.

Finance costs decreased further by about 28% to approximately HK$488,000 (2009: HK$675,000) as a result of the persistently low level of interest rates in spite of the drawdown of term loan by the Group of HK$12 million during the year.

## FUTURE PLAN & PROSPECT

Looking ahead, the trend of low level of interest rates is likely to continue in 2011, which may lead to the continuing rise in the prices of commodities. Together with the increasing costs of production in mainland China as a result of the expectation of appreciation of Renminbi and annual increase in the level of minimum labour wages, profit margin for manufacturing industries is likely to decrease.

In order to survive the adverse environment, the Group is trying different ways to enhance its profit margin, such as developing our own brand name and trademark, in addition to launching our own products in domestic market and the mainland market.

On other hand, with the available funds on hand, the Group will continue to search for investment opportunities. If possible, experts may be recruited to strengthen the investment function of the Group to enhance the return to shareholders.

Based on the expected greater share of profits from the toy products segment as a result of further acquisition of the shareholdings in Fareastern Trade Limited, details of which were disclosed in the Company's announcement dated 18 February 2011, together with the healthy financial position with available funds for investments, the Board is confident that the Group will continue to bring a reasonable return to its shareholders in the years to come.

## MANAGEMENT DISCUSSION AND ANALYSIS

## SEGMENT RESULTS

### Novelties and decorations

The turnover of this segment for the year showed a slight drop of about 2% and stood at approximately HK$97,985,000 (2009: HK$99,887,000), while the segment result decreased substantially by about 51% to approximately HK$2,395,000 (2009: HK$4,882,000). 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. The segment result was disappointing as compared to the figures of last corresponding period and of the interim result. The deterioration in segment result was mainly due to the increase in materials and labour costs.

### Packaging products

The revenue of packaging products to external customers decreased further by about 18% to approximately HK$63,057,000 (2009: HK$76,639,000), while the segment result recorded a gain of approximately HK$436,000 (2009: loss of HK$8,281,000). Included in the gain was an amount of approximately HK$1,000,000 (2009:nil) of write-back of over-provision of discretionary bonus in previous years. No further operating loss was incurred from this segment as a result of the termination of the production plant in Shenzhen in July 2010. Certain production facilities thereof have been relocated to the Group's production plant in Zhongshan to continue its operations at optimal scale.

### Trading activities

The revenue of the trading of PVC film and plastic materials increased gently by about 27% to approximately HK$65,360,000 (2009: HK$51,582,000). The growth was gentle as a result of the Group's prudent credit policy in selecting customers together with the target to maximize gains. And the segment recorded a contribution of approximately HK$1,546,000 (2009: HK$860,000) for the year representing a growth of about 80%. However, keen competition in the market and credit risks of customers were still the major issues faced by the Group in the segment and the continuity of this segment is subject to the overall strategic benefits that it can bring to the Group as a whole.

### Toy products

The turnover of this segment remained steady with a decrease of about 11% to approximately HK$156,377,000 (2009: HK$176,498,000), while the segment result therefrom decreased substantially to approximately HK$10,826,000 (2009: HK$26,228,000), representing a drop of about 59%. Decrease in contribution was the result of the increase in production costs in certain sub-segment, especially the sharp rise in the costs of raw materials, which could not be transferred to ultimate buyers effectively.

### Investments

To well utilize the available cash on hand, the Group has invested in the securities of various listed companies, for the purposes of trading for capital gain in the value of the securities. As at 31 December 2010, the market value of investments held-for-trading was approximately HK$72,910,000 (2009: HK$92,996,000).

In addition, the Group may also utilise its cash on hand by other types of investment with a view to enhancing the value to the shareholders. Such investment activities will be carried out in strict accordance with the guidelines on investment transactions, details of which are posted on the Company's website, www.perfectech.com.hk.

**Foreign currency exposure**

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

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

At 31 December 2010, the Group had not entered into any financial instrument for the hedging of foreign currency exposures.

**Liquidity and financial resources**

At 31 December 2010, the long-term finance lease obligation and bank loan of the Group were nil (2009: nil), while the short term bank borrowings were approximately HK$27,750,000 (2009: 23,815,000), and none of the Group's plant and machinery (2009: nil) was held under a finance lease. The gearing ratio, measured by total bank and other borrowings divided by equity, of the Group was 13% (2009: 10%). At 31 December 2010, the total bank balances and cash of the Group were approximately HK$72,487,000 (2009: HK$77,020,000).

With cash and other current assets at 31 December 2010 of HK$267,215,000 (2009: HK$276,734,000) as well as available banking facilities, the Group had sufficient financial resources to satisfy its commitments and working capital requirements.

**Net asset value**

The net asset value of the Group at 31 December 2010 was approximately HK$0.80 (2009: HK$0.85) per share based on the actual number of 275,207,607 shares in issue on that date.

**Employees and remuneration policies**

At 31 December 2010, the Group employed approximately 1,700 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.

**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 2010 they complied with the required standard set out in the Model Code for securities transactions.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2010, the Company has adopted the code provisions (the "Code Provisions") set out in the "Code on Corporate Governance Practices" (the "Codes") issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its corporate governance code and has compiled 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 role are taken up by the Managing Director, Mr. Poon Siu Chung, who is the Chairman and Managing Director of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Poon and believes that with Mr. Poon performing the roles of Chairman and Managing Director is beneficial to the business prospects of the Company.

## AUDIT COMMITTEE

The Company has established an audit committee which comprises all 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 committee.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing internal controls and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2010 of the Company now reported on.

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

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

| Month of repurchase | No. of shares at HK$0.10 each | Price per share Highest | Price per share Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$* |
| 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 |
| July 2010 | 3,218,000 | 0.780 | 0.710 | 2,460,449 |
| September 2010 | 950,000 | 0.730 | 0.720 | 695,368 |
| November 2010 | 3,330,000 | 0.780 | 0.720 | 2,511,004 |
| | 22,330,000 | | | 17,814,837 |

## APPRECIATION

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

On behalf of the Board
**Poon Siu Chung**
*Chairman & Managing Director*

Hong Kong, 29 March 2011

*As at the date of this announcement, the Board is composed of Mr. Poon Siu Chung, Mr. Ip Siu On, Mr. Tsui Yan Lee, Benjamin and Dr. Poon Wai Tsun, William as executive directors, Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David as independent non-executive directors.*

* *identification purpose only*