

annual report

2008

Perfectech

Perfectech International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 765)

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Corporate Information

Board of Directors

Executive Directors:

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

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
Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited
Chong Hing Bank Limited

Hong Kong share and warrant registrars and transfer office

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company (the "AGM") will be held at 3:00 p.m. on 3 June 2009 at Falcon Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong for the purpose of transacting the following business:

ORDINARY BUSINESS

1. To receive and adopt the consolidated audited financial statements and the reports of the Directors of the Company (the "Directors") and the independent auditors of the Company (the "Auditors") for the year ended 31 December 2008.
2. To re-appoint Messrs. HLM & Co. as the Auditors and authorise the board of Directors to fix their remuneration.
3. To declare a final dividend of 1.0 HK cent per share.
4. To re-elect the retiring Directors.
5. To re-elect the Directors who hold office until the conclusion of the AGM.
6. To authorise the board of Directors to fix the Directors' remuneration.

SPECIAL BUSINESS

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

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

Notice of Annual General Meeting

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

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

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

Notice of Annual General Meeting

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

By order of the Board

Poon Siu Chung

Chairman

Hong Kong, 28 April 2009

Notes:

1. A member of the Company who is a holder of two or more Shares, and who is entitled to attend and vote at the AGM is entitled to appoint more than one proxy or a duly authorized corporate representative to attend and vote in his stead. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the AGM and any adjournment thereof should he so wish. In such event, his form of proxy will be deemed to have been revoked.
2. A form of proxy for the AGM is enclosed with the Company's circular dated 28 April 2009. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the AGM or any adjournment thereof.
3. The Hong Kong branch register of members of the Company will be closed from 1 June 2009 to 3 June 2009, on which dates no transfers of Shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting to be held on 3 June 2009, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 29 May 2009.
4. With regard to resolutions nos. 7 and 9 above, the Directors wish to state that they have no immediate plans to issue any new Shares of the Company pursuant to the general mandate granted under resolution no. 7 above.

As at the date hereof, the board of Directors is composed of Mr. Poon Siu Chung, Mr. Leung Ying Wai, Charles, Mr. Ip Siu On and Mr. Tsui Yan Lee, Benjamin as Executive Directors, Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David as Independent Non-executive Directors.

Chairman's Statement

RESULTS

The Directors have resolved to announce the audited consolidated results for the year ended 31 December 2008. Total turnover for the year amounted to approximately HK\$514,771,000 (2007: HK\$524,950,000). The net loss for the year stood at approximately HK\$75,855,000 (2007: profit of HK\$32,207,000). Loss per share was 25.04 HK cents (2007: earnings per share of 10.42 HK cents).

FINAL DIVIDEND

The Directors recommend the payment of a final dividend for the year ended 31 December 2008 of 1.0 HK cent per share (2007: 3.5 HK cents per share) payable to shareholders on the register of members of the Company (the "Register of Members") on 3 June 2009. This dividend together with the interim dividend of 0.5 HK cents per share (2007: 2.5 HK cents per share) will make a total of 1.5 HK cents per share for the year (2007: 6.0 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 11 June 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 1 June 2009 to 3 June 2009, 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 29 May 2009.

BUSINESS REVIEW

In 2008, global economic condition went downwards gradually and was volatile as impacted by the economic recession of the US economy as a result of the sub-prime mortgage crisis. Together with the ever-increasing cost of production in the PRC such as the launch of new labour contract law in the mainland and the appreciation of the currency of Renminbi and the keen competition in various segments, the Group experienced a hard year.

During the year, the turnover of the Group decreased by approximately 2% to approximately HK\$514,771,000 (2007: HK\$524,950,000), and recorded a net loss attributable to equity shareholders of approximately HK\$75,855,000 (2007: profit of HK\$32,207,000). The adverse result was mainly due to loss in investment of the Group together with the decrease in profits from core businesses as a result of the global financial tsunami.

2008 was a bad year to the Group and it was the first time that the annual results of the Group recorded a net loss which amounted to approximately HK\$75,855,000 (2007: profit of HK\$32,207,000) since its listing in 1992. The loss was incurred mainly due to the substantial loss incurred in investments such as investment in listed securities and foreign exchange of approximately HK\$83,860,000 (2007: profit of HK\$10,566,000). The contributions from the four segments dropped by about 65% to approximately to HK\$9,888,000 (2007: HK\$27,862,000), the performance of which will be further discussed below.

Chairman's Statement

For the year 2008, the loss of the Group included loss on disposal of investments held-for-trading of approximately HK\$28,240,000, decrease in fair value of investments held-for-trading of approximately HK\$43,932,000, loss on settlement of derivative financial instruments of approximately HK\$39,691,000 and an impairment loss on goodwill of approximately HK\$3,561,000, and after crediting an increase in the fair value of derivative financial instruments of approximately HK\$28,677,000.

Finance costs increased by about 186% to approximately HK\$1,785,000 (2007: HK\$624,000). This was mainly due to drawdown of two USD term loans during the year.

FUTURE PLAN & PROSPECT

Looking ahead, 2009 will undoubtedly be a challenging and difficult year to the world as a whole, including the Group, and we will continue to focus on improving the Group's profitable core businesses. As Renminbi seems to be relatively stable since the second half of 2008, threat of further production costs increment is eased, and we believe that the core business of the Group is stable and healthy, and its financial position is solid and liquid to meet its debt repayment and ordinary and usual course of business requirements.

The Directors are confident that the Group will pass this extremely hard time and look forward to a better performance in coming years.

MANAGEMENT DISCUSSION AND ANALYSIS

Segment results

Novelties and decorations

The turnover of this segment for the year showed a slight drop of about 4% and stood at approximately HK\$125,184,000 (2007: HK\$130,498,000), while the segment result decreased substantially by about 85% to approximately HK\$1,992,000 (2007: HK\$13,304,000). The result of the segment decreased substantially due to the increase in costs of production together with increase in provision for doubtful debts as a result of the deterioration of financial positions of its certain overseas customers.

Packaging products

The turnover of packaging products to external customers increased by about 11% to approximately HK\$138,352,000 (2007: HK\$124,985,000), while the segment result recorded a contribution of approximately HK\$3,765,000 (2007: loss of HK\$1,676,000). This segment resumed to make contribution to the Group after a series of effort made in the repositioning of the product mix and the increase in the performance of certain area of the segment. However, the segment still encountered keen competition and increase in production costs, while there is still room for improvements.

Chairman's Statement

Trading activities

The turnover of the trading of PVC film and plastic materials decreased significantly by about 29% to approximately HK\$72,730,000 (2007: HK\$102,479,000) as a result of the Group's prudent credit policy. Keen competitions in the market and credit risks of customers were major issues faced by the Group in the segment. Nevertheless, the segment recorded a contribution of approximately HK\$461,000 (2007: loss of HK\$91,000) for the year. The continuity of this segment is subject to the overall strategic benefits it can bring to the Group as a whole.

Toy products

The turnover of this segment increased mildly by about 7% to approximately HK\$178,505,000 (2007: HK\$166,988,000), while the segment result therefrom dropped sharply to approximately HK\$4,939,000 (2007: HK\$17,594,000), representing a decrease of about 72%. Decrease in contribution was also due to the increase of costs of production in mainland China as a result of increase in wages and the appreciation of Renminbi, while the selling price in the first half of 2008 was frozen as stated in our interim report for the six months ended 30 June 2008 together with the written off of goodwill of approximately HK\$3,561,000.

Investments

To well utilize the available cash on hand, the Group has invested in the securities of various listed companies, which are held for trading purposes for capital gain in the value of the securities. As at the balance sheet date, the market value of investments held-for-trading was approximately HK\$52,709,000 (2007: HK\$19,392,000).

In addition, the Group may also utilize its cash on hand by other types of investment with a view to enhancing the value to the shareholders. However, that must be done strictly in 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 there are dominated in Renminbi. At the balance sheet date, the Group has entered into one financial instrument with its major banker for the hedging of exposures in US Dollar.

Liquidity and financial resources

As at 31 December 2008, the long-term finance lease obligation and bank loan of the Group were approximately HK\$23,814,000 (2007: nil), while the short term bank borrowings were approximately HK\$17,693,000 (2007: nil), and none of the Group's plant and machinery (2007: nil) was held under a finance lease. The gearing ratio, measured by total bank and other borrowings divided by equity, of the Group was approximately 20% (2007: nil).

At balance sheet date, the Group had bank balances and cash of approximately HK\$47,117,000 (2007: HK\$53,400,000).

Chairman's Statement

With cash and other current assets at 31 December 2008 of HK\$255,533,000 (2007: HK\$321,388,000) as well as available banking facilities, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Net asset value

The net asset value of the Group as at 31 December 2008 was HK\$0.69 (2007: HK\$0.96) per share based on the actual number of 298,695,607 shares in issue on that date.

Employees and remuneration policies

As at 31 December 2008, the Group employed approximately 2,800 full time employees. The Group remunerates its employees largely based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

Appreciation

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

On behalf of the Board

Poon Siu Chung

Chairman & Managing Director

Hong Kong, 21 April 2009

Biographical Details of Directors and Senior Management Staff

DIRECTORS

Executive Directors

Mr. POON Siu Chung, aged 59, is the Chairman and Managing Director of the Company. Mr. Poon is the co-founder of the group and has over 30 years' experience in the plastic industry and toy business. He oversees the Group's operations and is responsible for formulating the Group's overall corporate policies and development plans.

Mr. LEUNG Ying Wai, Charles, aged 59, is the Deputy Chairman of the Company and the co-founder of the Group. Mr. Leung advises on the Group's overall corporate policies and development plans. He holds a Bachelor of Business Administration Degree from the Chinese University of Hong Kong and has over 30 years' experience in the manufacturing field.

Mr. IP Siu On, aged 55, is primarily responsible for the sales and marketing of the Group's packaging products. Before joining the Group in 1984, Mr. Ip had over 10 years' experience in the field of dye mixing and packaging products.

Mr. TSUI Yan Lee, Benjamin, aged 49, is responsible for the sales and marketing of the Group's novelties and festival decorations. Prior to joining the Group in 1983, he worked in a manufacturing company as a sales executive for over 3 years.

Independent non-executive Directors

Mr. LAM Yat Cheong, aged 48, graduated from the Hong Kong Baptist University. Mr. Lam is a Certified Public Accountant and a sole proprietor of an audit firm and has over 18 years of auditing and accounting experience. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute Public Accountants. He is also an independent non-executive director of Lee's Pharmaceutical Holdings Limited and Wuyi International Pharmaceutical Company Limited, companies listed in Hong Kong.

Mr. YIP Chi Hung, aged 50, is experienced in the construction industry. Mr. Yip is a director of Fong Wing Shing Construction Company Limited. He has over 20 years of experience on a variety of building and maintenance projects for both the public and private sectors and is also well versed in the development of properties in Hong Kong and Singapore. He is also the chairman and executive director of PacMOS Technologies Holdings Limited, a company listed in Hong Kong.

Mr. CHOY Wing Keung, David, aged 43, graduated from the Hong Kong Shue Yan University and is the sole proprietor of David Choy & Co., Certified Public Accountants (Practising). He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Certified Chartered Accountants. He has over 18 years of experience in the areas of auditing, accounting, secretarial services and taxation.

Biographical Details of Directors and Senior Management Staff

SENIOR MANAGEMENT

Mr. FUNG Kun Kwai, aged 55, is the factory manager of the Group. He joined the Group in 1978 and has more than 20 years' experience in vacuum forming operations. Mr. Fung is responsible for overseeing the production facilities of the Group.

Mr. YUEN Che Wai, Victor, aged 43, is the Group's financial controller. Mr. Yuen is a member of the Hong Kong Institute of Certified Public Accountant and the Association of Chartered Certified Accountants. He is responsible for the overall supervision on the accounting and finance functions of the Group. Mr. Yuen holds a diploma in accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University). He joined the Group in 1991 and has more than 10 years' experience in the audit and accounting field.

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2008, the Company has adopted the code provisions (the "Code Provisions") set out in the "Code on Corporate Governance Practices" (the "Code") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its corporate governance code and has complied with the Code Provisions, save for the following deviation.

Code Provision A.2.1

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

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

THE BOARD OF DIRECTORS

The Role of the Board

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

The types of decisions taken out by the Board include:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;

Corporate Governance Report

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

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

Board Composition

The Board comprises 7 Directors, 4 of whom are Executive Directors ("EDs", and each an "ED") and 3 being Independent Non-Executive Directors ("INEDs", and each an "INED"). During the year, there is no change to the composition of the Board.

For the biographies of the Directors, please refer to this Annual Report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board, except that Mr. Poon Siu Chung and Mr. Ip Siu On are both shareholders and directors of a company incorporated in Hong Kong engaging in property investment, which is owned as to 50% by Mr. Poon, as to 25% by Mr. Poon's spouse, Ms. Lau Kwai Ngor and as to 25% by Mr. Ip.

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

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

Pursuant to Listing Rule 3.13, the Group has received a written confirmation from each INED of their independent status, and the Board considers that they are independent in accordance with the Listing Rules.

Corporate Governance Report

Board Process

In addition to Board meetings that are held regularly to discuss and approve the Group's results, additional Board meetings are held from time to time to discuss important matters that require the Board's attention and decision. In 2008, there were 4 regular Board meetings and 30 Special Board meetings held, and the attendance of the Directors is set out below:

Directors	Attended/Eligible to attend	
	Regular Board Meeting	Special Board Meeting for operation matters
<i>Executive Directors</i>		
Poon Siu Chung (Chairman)	4/4	30/30
Ip Siu On	3/4	29/30
Tsui Yan Lee, Benjamin	3/4	29/30
Leung Ying Wai, Charles	3/4	3/30
<i>Independent Non-Executive Directors</i>		
Yip Chi Hung	4/4	1/30
Lam Yat Cheong	4/4	1/30
Choy Wing Keung, David	4/4	1/30

Regular Board meetings are attended to by a majority of the Directors in person.

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

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

Corporate Governance Report

Nomination, Appointment and Re-election of Directors

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

During 2008, the Board held a Board meeting to discuss the re-election of Mr. Poon Siu Chung as an ED and the re-election of Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David as INEDs. Mr. Poon Siu Chung, being an ED, and all the INEDs attended this Board meeting while each of them abstained voting from the resolution in respect of his own re-election.

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

Procedure for Nomination of Directors

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

Criteria for Nomination of Directors

1. *Common Criteria for all Directors*

- (a) Character and integrity
- (b) The willingness to assume Broad fiduciary responsibility
- (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
- (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company

Corporate Governance Report

- (e) Significant business or public experience relevant and beneficial to the Board and the Company
- (f) Breadth of knowledge about issues affecting the Company
- (g) Ability to objectively analyse complex business problems and exercise sound business judgment
- (h) Ability and willingness to contribute special competencies to Board activities
- (i) Fit with the Company's culture

2. *Criteria Applicable to the Non-Executive Directors ("NEDs")/INEDs*

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

Appointment, Re-election and Removal

Under Bye-law 99 of the Company's Bye-laws, every director shall be subject to retirement by rotation at the annual general meeting at least once every three years while those retiring directors shall be eligible for re-election.

Under the Code Provision A4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

In accordance with the said provision of the Bye-laws and the Code Provision A4.1, the following re-election arrangement was made in the annual general meeting held on 27 May 2008:

1. Mr. Poon Siu Chung, an Executive Director, was re-elected.
2. All Non-executive Directors, being Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David were re-elected to hold office until the conclusion of the next annual general meeting of the Company, subject to re-election by shareholders.

Corporate Governance Report

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 2008 they complied with the required standard set out in the Model Code for securities transactions.

The Directors' interests in shares of the Group as at 31 December 2008 are set out in this Annual Report.

Internal Control

The Board annually conducts a review on the effectiveness of the system of internal control of the Group.

In 2008, the Board has conducted such a review and confirms that no major issues have been discovered. Throughout this process, the Board has examined the reports on internal control and procedures in place submitted by various factories of the Group.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee

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

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

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

During 2008, one Committee meeting was held on 17 November 2008 which all the current 5 members attended.

Corporate Governance Report

Emolument Policy and Long-Term Incentive Plan

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

Emolument Policy for Executive Directors (“EDs”)

1. A proportion of EDs’ remuneration should be structured so as to link rewards to corporate and individual performance.
2. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of EDs.
3. The performance-related elements of remuneration should be designed to align the EDs’ interests with those of shareholders and to give these Directors keen incentives to perform at the highest levels.
4. Factors for Defining Performance-Based Remuneration:
 - (a) Eligibility for annual bonuses and any upper limits
 - (b) Annual bonuses should be linked to relevant performance indicators designed to enhance the Company’s business
 - (c) Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company’s performance
 - (d) Examples of performance indicators:
 - (i) share price
 - (ii) net earnings figure

Emolument Policy for NEDs

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

Principles of Long-Term Incentive Schemes

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

Corporate Governance Report

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

Audit Committee

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

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

The Audit Committee currently comprises 3 members, namely Mr. Lam Yat Cheong, who is also the chairman of the Committee, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, who are INEDs. Both Mr. Lam and Mr. Choy have professional qualifications in accounting. The details of the members' attendance in Committee meetings in 2008 are as follows:

Members	Attended/Eligible to attend
Mr. Lam Yat Cheong	2/2
Mr. Yip Chi Hung	2/2
Mr. Choy Wing Keung, David	2/2

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

The Audit Committee's work in 2008 includes consideration of the following matters:

- the completeness and accuracy of the 2007 annual and 2008 interim financial statements;

Corporate Governance Report

- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the management letter submitted by the external auditors summarizing matters arising from their audit of the Group for year 2007;
- detailed analysis of various aspects of the Company's financial performance; and
- investment policies and possible impact of certain investment transactions.

External Auditors

The Company's external auditor is HLM & Co. The Group will pay HLM & Co. approximately HK\$750,000 for their audit services for 2008.

CORPORATE COMMUNICATION

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

Shareholders' Rights

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

The most recent shareholders' meeting was the AGM held on 27 May 2008 at Lavender Room, 27th Floor, The Park Lane Hong Kong, 310 Gloucester Road, Causeway Bay, Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated audited financial statements and reports for the Directors and auditors for the year ended 31 December 2007;
- declaring the final dividend;
- re-electing certain Directors and authorizing the Board to fix their remunerations;
- appointing auditors and authorizing the Board to fix their remunerations;
- passing a general mandate to allow the Directors to allot and issue shares of the Company; and
- passing a general mandate to allow the Directors to repurchase shares of the Company.

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 39 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 33.

An interim dividend of 0.5 HK cent per share amounting to approximately HK\$1,521,000 was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of 1.0 HK cent per share to the shareholders on the register of members on 3 June 2009, amounting to approximately HK\$2,987,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 42% of the total turnover of the Group and the largest customer accounted for approximately 28% of the total turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for approximately 40% of the total purchases of the Group and the largest supplier accounted for approximately 20% of the total purchases of the Group.

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

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

The Group continued its replacement policy and expended HK\$8,370,000 on property, plant and equipment during the year.

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

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 29 to the financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$70,886,000 of which HK\$2,987,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$82,900,000, may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive directors

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

Independent non-executive directors

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

In accordance with Bye-law 99 of the Bye-laws of the Company, Mr. Leung Ying Wai, Charles, Mr. Ip Siu On and Mr. Tsui Yan Lee, Benjamin, being Executive Directors, shall retire from office by rotation at the conclusion of the forthcoming annual general meeting and, being eligible, offers themselves for re-election.

Further, Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, being Independent Non-executive Directors, will hold office until the conclusion of the forthcoming annual general meeting. All of them, being eligible, will offer themselves for re-election.

DIRECTOR'S SERVICE CONTRACTS

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

All Independent Non-executive Directors have been appointed for a term of approximately one year.

All Independent Non-executive Directors will hold office until the conclusion of the forthcoming annual general meeting of the Company.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31 December 2008, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

(A) Long positions in shares of the Company

Director	Capacity	Number of shares held	Total	% of issued share capital of the associated corporation
Mr. Poon Siu Chung	Beneficial owner	26,900,000		
	Interest of spouse and controlled corporation	103,203,430	130,103,430 (a)	43.56
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	21.12
Mr. Ip Siu On	Beneficial owner	5,803,600	5,803,600	1.94
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	2,111,000	2,111,000	0.71
Mr. Yip Chi Hung	Interest of controlled corporation	2,200,000	2,200,000 (c)	0.74

Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 26,900,000 shares of the Company and he was deemed to be interested in 2,064,000 shares and 101,139,430 shares which were held by his spouse, Ms. Lau Kwai Ngor and through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor respectively.
- (b) Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, his spouse, Ms. Tai Yee Foon and his family members.
- (c) Mr. Yip Chi Hung was deemed to be interested in 2,200,000 shares which were held through First Canton Investment Limited, a company incorporated in the British Virgin Islands and 100% beneficially owned by Mr. Yip.

Report of the Directors

(B) Long position in shares of associated corporations of Company

Director	Name of Associated corporation	Capacity	Number of shares held	Total	% of issued share capital of the associated corporation
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner	200	400 (d)	50
		Interest of spouse	200		
	Sunflower Garland Manufactory Limited	Beneficial owner	60,800	81,600 (e)	51
		Interest of spouse	20,800		
Mr. Leung Ying Wai, Charles	Perfectech International Limited	Interest of spouse	400	400 (f)	50
Mr. Ip Siu On	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18
Mr. Tsui Yan Lee, Benjamin	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18

Notes:

- (d) Mr. Poon Siu Chung was the beneficial owner of 200 non-voting deferred shares ("Perfectech Shares") of HK\$100 each in Perfectech International Limited, a subsidiary of the Company and was deemed to be interested in 200 Perfectech Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (e) Mr. Poon Siu Chung was the beneficial owner of 60,800 non-voting deferred shares ("Sunflower Shares") of HK\$1 each in Sunflower Garland Manufactory Limited, a subsidiary of the Company and was deemed to be interested in 20,800 Sunflower Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (f) Mr. Leung Ying Wai, Charles was deemed to be interested in 400 Perfectech Shares through interests of his spouse, Ms. Tai Yee Foon.

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 options" section of this report.

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the Directors, nor their associates, had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations as at 31 December 2008.

Report of the Directors

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 39 to the financial statements.

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

	Number of options outstanding at 1.1.2008	Number of options granted during the year	Number of shares issued and exercise of options during the year	Number of options outstanding at 31.12.2008	Date granted	Exercise price per share HK\$	Exercisable period
Directors							
Ip Siu On	3,000,000	-	(2,000,000)	1,000,000	2 February 2005	0.608	2 May 2005 – 31 December 2014
Tsui Yan Lee, Benjamin	2,000,000	-	(1,000,000)	1,000,000	2 February 2005	0.608	2 May 2005 – 31 December 2014
	-	1,000,000	-	1,000,000	14 October 2008	0.389	1 November 2008 – 31 December 2017
Yip Chi Hung	300,000	-	-	300,000	2 November 2007	0.85	2 December 2007 – 31 December 2016
Lam Yat Cheong	300,000	-	-	300,000	2 November 2007	0.85	2 December 2007 – 31 December 2016
Choy Wing Keung, David	300,000	-	-	300,000	2 November 2007	0.85	2 December 2007 – 31 December 2016
Employees	8,000,000	-	(3,500,000)	4,500,000	24 March 2006	0.54	24 April 2006 – 31 December 2014
	9,500,000	-	-	9,500,000	2 November 2007	0.85	2 December 2007 – 31 December 2016
	-	3,500,000	-	3,500,000	14 October 2008	0.389	1 November 2008 – 31 December 2017
	<u>23,400,000</u>	<u>4,500,000</u>	<u>(6,500,000)</u>	<u>21,400,000</u>			
Others	1,000,000	-	-	1,000,000	5 June 2002	0.664	5 July 2002 – 17 May 2012
	1,000,000	-	-	1,000,000	2 February 2005	0.608	2 May 2005 – 31 December 2014
	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>			
Grant Total	<u>25,400,000</u>	<u>4,500,000</u>	<u>(6,500,000)</u>	<u>23,400,000</u>			

Report of the Directors

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

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

Date of grant	Number of shares issuable under options granted	Option value	Closing share price at date of grant	Risk free rate (being the yield of 10-year Exchange Fund Notes)	Expected volatility – note (i)	Expiration of the options	Expected ordinary dividend note (ii)
14 October 2008	4,500,000	HK\$720,000	HK\$0.335	2.7%	62.42%	31 December 2017	4.48%

(i) The volatility measured at the standard deviation of expected share price returns is based on the daily closing prices over the one year immediately preceding the date of grant.

(ii) Expected ordinary dividend is based on 2008 prospective dividend yield of the shares as at 14 October 2008.

The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares on the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

(a) On 31 December, 2007, the Group entered into a tenancy agreement with Mr. Poon Siu Chung, a substantial shareholder and Director of the Company, in relation to premises at Nos. 34 and 35 of Xiazha Industrial Street, Jinding Town, Zhuhai, the People's Republic of China, for a monthly rent of HK\$20,000 for a period of three years commencing from 1 January 2008. The said premises are used by the Group as factories. The total rent payable by the Group for the premises for the full period of the tenancy under the aforesaid tenancy agreement will amount to HK\$720,000. During the year, the Group paid rent to Mr. Poon Siu Chung totalling HK\$240,000.

Report of the Directors

- (b) During the year, the Group issued guarantees to financial institutions to secure general banking facilities granted to the Group including its subsidiaries which are not wholly-owned by the Group, known as Perfectech Paper Products Company Limited ("Paper"), Perfectech Printing Company Limited ("Printing"), Asia Rich (Far East) Limited ("Asia Rich"), Beyond Growth International Limited ("Beyond Growth"), Dream Creation Limited ("Dream Creation") and Shouji Tooling Factory Limited ("Shouji"). Details of the guarantees and amount utilised as at 31 December 2008 are as follows:

Subsidiaries connected	In favour of	Guarantee amount HK\$	Amount utilised HK\$
Paper and Printing	The Hongkong and Shanghai Banking Corporation Limited	90,000,000	1,041,000
Asia Rich, Beyond Growth, Dream Creation and Shouji	The Hongkong and Shanghai Banking Corporation Limited Hang Seng Bank	50,000,000 140,000,000	– –
Beyond Growth, Dream Creation and Shouji	Chong Hing Bank Limited	25,000,000	–

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

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

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section "Directors' Interests in Shares", as at 31 December 2008, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of the relevant interests in the shares capital of the Company as follows (please also see Note (c) below):

Long positions in shares of the Company

Shareholder	Capacity	Number of Shares held	Total		% of issued share capital of the Company
Ms. Lau Kwai Ngor	Beneficial owner	2,064,000			
	Interest of spouse and controlled corporation	128,039,430	130,103,430	(a)	43.56
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200	63,097,200	(b)	21.12
Allianz SE	Interest of controlled corporation	40,639,771	40,639,771	(c)	13.61
Dresdner Bank Aktiengesellschaft	Interest of controlled corporation	40,639,771	40,639,711	(c)	13.61
Dresdner VPV NV	Investment Manager	40,639,771	40,639,711	(c)	13.61

Notes:

- (a) Under the SFO, Ms. Lau Kwai Ngor was the beneficial owner of 2,064,000 shares and was deemed to be interested in 128,039,430 shares of the Company through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 26,900,000 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 the SFO, Ms. Tai Yee Foon was deemed to be interested in 63,097,200 shares of the Company through interests of her spouse, Mr. Leung Ying Wai, Charles. Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, Ms. Tai Yee Foon and his family members.
- (c) Under the SFO, Allianz SE and Dresdner Bank Aktiengesellschaft were deemed to be interested in the 40,639,771 shares of the Company held by Dresdner VPV NV.

Report of the Directors

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE

The Company has adopted throughout the year ended 31 December 2008 with the Code of Corporate Governance Practices ("Code Provision") set out in the Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report in page 12 to 20 of this annual report.

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

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

Month of repurchase	No. of shares of HK\$0.10 each	Price per share		Aggregate
		Highest HK\$	Lowest HK\$	Consideration Paid HK\$
March 2008	300,000	0.680	–	205,486
April 2008	360,000	0.610	–	221,293
October 2008	1,960,000	0.385	0.335	701,040
November 2008	2,146,000	0.340	0.315	714,186
December 2008	<u>2,792,000</u>	0.355	0.325	<u>972,564</u>
	<u>7,558,000</u>			<u>2,814,569</u>

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 35 to the financial statements.

Report of the Directors

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 37 to the financial statements.

AUDITORS

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

On behalf of the Board

Mr. Poon Siu Chung

Chairman & Managing Director

Hong Kong, 21 April 2009

Independent Auditors' Report

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

Room 305, Arion Commercial Centre
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TO THE MEMBERS OF PERFECTECH INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Bermuda with limited liability)

We have audited the consolidated financial statements of Perfectech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 91 which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of change in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

Independent Auditors' Report

Auditors' responsibility (Cont'd)

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

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

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.

Certified Public Accountants

Hong Kong, 21 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
			(Restated)
Revenue	6 & 7	514,771	524,950
Cost of sales		(437,342)	(434,142)
Gross profit		77,429	90,808
Net other (losses) incomes	8	(78,956)	15,442
Distribution costs		(19,085)	(21,443)
Administrative expenses		(47,847)	(45,682)
Impairment loss on goodwill		(3,561)	(175)
Finance costs	9	(1,785)	(624)
(Loss) profit before tax	10	(73,805)	38,326
Income tax expenses	12	(61)	(4,229)
(Loss) profit for the year		(73,866)	34,097
Attributable to:			
Equity holders of the Company		(75,855)	32,207
Minority interests		1,989	1,890
(Loss) profit for the year		(73,866)	34,097
Dividends	13	12,094	24,194
(Loss) earnings per share	14		
Basic		(25.04) Cents	10.65 Cents
Diluted		N/A	10.42 Cents

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	54,605	63,008
Prepaid lease payments	16	134	209
Goodwill	17	–	3,561
Deferred tax assets	28	1,836	1,103
		56,575	67,881
CURRENT ASSETS			
Inventories	19	72,874	70,778
Trade and other receivables	20	76,468	98,566
Prepaid lease payments	16	75	75
Tax recoverable		1,214	1,672
Investments held-for-trading	23	52,709	19,392
Equity-linked note	24	4,955	–
Derivative financial instruments	22	–	3,296
Pledged bank deposits	25	121	74,209
Bank balances and cash	21	47,117	53,400
		255,533	321,388
CURRENT LIABILITIES			
Trade and other payables	26	53,654	51,810
Derivative financial instruments	22	511	32,484
Tax liabilities		897	3,123
Bank borrowings-due within one year	27	12,841	–
Secured bank overdraft	27	4,852	–
		72,755	87,417
NET CURRENT ASSETS		182,778	233,971
TOTAL ASSETS LESS CURRENT LIABILITIES		239,353	301,852

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	28	1,359	2,262
Bank borrowings-due after one year	27	23,814	–
		25,173	2,262
NET ASSETS			
		214,180	299,590
CAPITAL AND RESERVES			
Share capital	29	29,870	29,975
Reserves		175,019	261,250
Equity attributable to equity holders of the Company		204,889	291,225
Minority interests		9,291	8,365
TOTAL EQUITY		214,180	299,590

The financial statements on pages 33 to 91 were approved and authorised for issue by the board of Directors on 21 April 2009 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital	Share premium	Capital redemption reserve	Translation reserve	Share options reserve	Retained profits	Equity attributable to equity holders of the Company	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	30,316	77,723	3,343	45	2,204	171,007	284,638	7,893	292,531
Profit for the year	-	-	-	-	-	32,207	32,207	1,890	34,097
Recognition of equity – settled share based payment	-	-	-	-	2,143	-	2,143	-	2,143
Share issued upon exercise of options	200	1,221	-	-	(273)	-	1,148	-	1,148
Dividends (note 13)	-	-	-	-	-	(24,194)	(24,194)	(1,418)	(25,612)
Repurchase and cancellation of shares	(541)	-	541	-	-	(4,727)	(4,727)	-	(4,727)
Exchange difference arising on translation of foreign operations	-	-	-	10	-	-	10	-	10
At 31 December 2007	<u>29,975</u>	<u>78,944</u>	<u>3,884</u>	<u>55</u>	<u>4,074</u>	<u>174,293</u>	<u>291,225</u>	<u>8,365</u>	<u>299,590</u>
At 1 January 2008	29,975	78,944	3,884	55	4,074	174,293	291,225	8,365	299,590
(Loss) profit for the year	-	-	-	-	-	(75,855)	(75,855)	1,989	(73,866)
Recognition of equity – settled share based payment	-	-	-	-	720	-	720	-	720
Share issued upon exercise of options	650	3,956	-	-	(892)	-	3,714	-	3,714
Dividends (note 13)	-	-	-	-	-	(12,094)	(12,094)	(1,063)	(13,157)
Repurchase and cancellation of shares	(755)	-	755	-	-	(2,815)	(2,815)	-	(2,815)
Exchange difference arising on translation of foreign operations	-	-	-	(6)	-	-	(6)	-	(6)
At 31 December 2008	<u>29,870</u>	<u>82,900</u>	<u>4,639</u>	<u>49</u>	<u>3,902</u>	<u>83,529</u>	<u>204,889</u>	<u>9,291</u>	<u>214,180</u>

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK\$'000	2007 HK\$'000 (Restated)
OPERATING ACTIVITIES		
(Loss) profit before tax	(73,805)	38,326
Adjustments for:		
Allowance for doubtful debts	4,330	925
Depreciation of property, plant and equipment	15,258	18,963
Dividend income from investments held-for-trading	(994)	(269)
Interest expenses	1,785	624
Interest income	(979)	(4,773)
Impairment loss on goodwill	3,561	175
Impairment loss on trade receivables	79	–
Loss (gain) on disposal of investments held-for-trading	28,240	(28,267)
Loss (gain) on settlement of derivative financial instruments	39,691	(5,180)
Loss on disposal of property, plant and equipment	1,071	2,172
Net change in fair value of derivative financial instruments	(28,677)	26,082
Net change in fair value of equity-linked note	2,845	–
Net change in fair value of investments held-for-trading	43,932	1,738
Release of prepaid lease payments	75	75
Share-based payment expenses	720	2,143
Written down of inventories	1,040	–
Operating cash flows before movements in working capital	38,172	50,734
Decrease in amount due from a minority shareholder of a subsidiary	–	175
Decrease in trade and other receivables	17,689	3,271
(Increase) decrease in inventories	(3,136)	3,392
Increase in trade and other payables	1,844	2,055
Cash generated from operations	54,569	59,627
Hong Kong Profits Tax paid, net	(3,463)	(5,646)
PRC Enterprise Income Tax paid, net	(2)	–
NET CASH FROM OPERATING ACTIVITIES	51,104	53,981

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	HK\$'000	HK\$'000
		(Restated)
INVESTING ACTIVITIES		
Acquisition of additional interest in subsidiary	–	(175)
Decrease (increase) in pledged bank deposits	74,088	(55,396)
Dividend received from investments held-for-trading	994	269
Interest received	979	4,773
Net (payments) proceeds received on settlement of derivative financial instruments	(39,691)	5,180
Proceeds on disposal of investments held-for-trading	145,100	580,559
Proceeds on disposal of property, plant and equipment	467	1,705
Purchase of equity-linked note	(7,800)	–
Purchase of investments held-for-trading	(250,589)	(561,500)
Purchase of property, plant and equipment	(8,370)	(9,960)
NET CASH USED IN INVESTING ACTIVITIES	(84,822)	(34,545)
FINANCING ACTIVITIES		
Dividends paid to equity holders of the Company	(12,094)	(24,194)
Dividends paid to minority shareholders	(1,063)	(1,418)
Interest paid	(1,785)	(624)
New bank borrowing and trust receipt loans raised	102,022	29,342
Payment for repurchase of shares	(2,815)	(4,727)
Proceeds received upon share option exercised	3,714	1,148
Repayment of bank borrowings and trust receipt loans	(65,367)	(29,342)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	22,612	(29,815)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,106)	(10,379)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	53,400	63,776
Effect of change in foreign exchange rates	(29)	3
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42,265	53,400
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	47,117	53,400
Secured bank overdraft	(4,852)	–
	42,265	53,400

Notes to the Financial Statements

For the year ended 31 December 2008

1. GENERAL

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office is Cannon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and principal place of business is 7th Floor, E Tat Factory Building, 4 Heung Yip Road, Wong Chuk Hang, Aberdeen, Hong Kong.

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

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

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

HKFRSs (Amendments)	Improvements to HKFRSs ⁵
HKFRS 1 & HKAS 27 (Amendments)	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements–Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combination ²
HKFRS 8	Operating Segments ¹
HKAS 1 (Revised)	Presentation of Financial Statement ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKAS 39 (Amendments)	Eligible Hedged Items ²
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – Int 16	Hedges of a New Investment in a Foreign Operation ⁴
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners ²
HK(IFRIC) – Int 18	Transfers of Asset from Customers ²

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5, and HK(IFRIC)-Int 9, which are effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 October 2008

⁵ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5 and HK(IFRIC)-Int 9, effective for annual periods beginning on or after 1 July 2009

* Improvements to HKFRSs contain amendments to HKFRS 1, HKFRS 4, HKFRS 5, HKFRS 6, HKFRS 7, HKFRS 8, HKAS 2, HKAS 7, HKAS 8, HKAS 10, HKAS 12, HKAS 14, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 21, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 33, HKAS 34, HKAS 36, HKAS 37, HKAS 38, HKAS 39, HKAS 40 and HKAS 41, HK(IFRIC)-Int 2.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation

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

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

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

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

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

Business combinations

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

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

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

Goodwill arising on acquisitions on or after 1 January 2005.

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

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

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

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

Revenue recognition

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

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

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

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

Management fee income is recognised where services are rendered.

Notes to the Financial Statements

For the year ended 31 December 2008

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

Property, plant and equipment

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

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

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

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

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

Borrowing costs

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

Retirement benefit costs

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

Notes to the Financial Statements

For the year ended 31 December 2008

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

Taxation

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

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

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

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

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

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

Inventories

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

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

Notes to the Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

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

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Impairment of financial assets (Cont'd)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payment, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

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

Financial liabilities at fair value through profit or loss

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

Notes to the Financial Statements

For the year ended 31 December 2008

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

Financial instruments *(Cont'd)*

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derivative financial instruments and hedging

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

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

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

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

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent balance sheet date, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 Provision, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Contingent assets

Contingent assets are not recognised. If, in subsequent periods, it has become virtually certain that an inflow of economic benefits will arise, the asset and income are recognised in the period in which the change occurs.

Equity settled share-based payment transactions

Share options granted to employees of the Company

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

Impairment losses on tangible and intangible assets other than goodwill

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2008 was HK\$54,605,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 1% to 30% per annum or over the term of the lease, commencing from the date the assets is placed into productive use. The estimated useful life and dates that the Group places the assets into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Impairment on trade receivables

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

Impairment on inventories

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The goodwill is impaired for the year ended 31 December 2008. Details of the recoverable amount calculation are disclosed in note 18.

Notes to the Financial Statements

For the year ended 31 December 2008

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

Income taxes

As at 31 December 2008, a deferred tax asset of HK\$13,304,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk management

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

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

	Assets	Liabilities	Assets	Liabilities
	2008	2008	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renminbi ("RMB")	<u>13,839</u>	<u>20,961</u>	<u>6,489</u>	<u>15,401</u>

Notes to the Financial Statements

For the year ended 31 December 2008

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

Currency risk management (Cont'd)

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against the Hong Kong dollars, the effect in the (loss) profit for the year is as follows:

	Impact of RMB 2008 HK\$'000	Impact of RMB 2007 HK\$'000
Increase/decrease in (loss) profit for the year	3,597	445

Liquidity risk management

Internally generate cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to floating rate and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The maturity profile of the Group's financial liabilities at the balance sheet date is based on contractual undiscounted payments are summarized below:

	Within 1 year HK\$'000	2008 2-5 years HK\$'000	Total HK\$'000
Trade payables	31,275	-	31,275
Accruals and other payables	22,379	-	22,379
Tax payables	897	-	897
Derivative financial instruments	511	-	511
Bank borrowings	12,841	23,814	36,655
Bank overdraft	4,852	-	4,852
Capital commitment in respect of the acquisition of property, plant and equipment authorised but not contracted for and provided in the consolidated financial statements	1,396	-	1,396
	74,151	23,814	97,965

Notes to the Financial Statements

For the year ended 31 December 2008

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

Liquidity risk management (Cont'd)

	Within 1 year HK\$'000	2007 2-5 years HK\$'000	Total HK\$'000
Trade payables	33,629	–	33,629
Accruals and other payables	18,181	–	18,181
Tax payables	3,123	–	3,123
Derivative financial instruments	32,484	–	32,484
Capital commitment in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	2,109	–	2,109
Capital commitment in respect of the settlement of outstanding forward contracts	<u>213,670</u>	<u>–</u>	<u>213,670</u>
	<u>303,196</u>	<u>–</u>	<u>303,196</u>

Interest rate risk management

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

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

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

Notes to the Financial Statements

For the year ended 31 December 2008

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

Price risk management

The Group's investments in equity listed in Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the relevant stock market index and other industry indicators, as well as the Group's liquidity needs. To manage its price risk arising from the equity securities, the Group maintains a portfolio of investments with different risk profiles.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the reporting date. For sensitivity analysis purpose, the sensitivity rate is increased to 15% in the current year as a result of the volatile financial market.

If listed equity prices had been 15% higher/lower (2007: 5% higher/lower), loss for the year ended 31 December 2008 would increase/decrease by HK\$7,906,000 (2007: HK\$557,000). This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

Fair values

As at 31 December 2008, the carrying amount of cash and cash equivalents, prepayments, deposits and other receivables, accrued liabilities and other payables approximated their fair values due to the short-term maturities of these assets and liabilities. The Directors consider that financial assets at fair value through profit or loss are included in the balance sheet at amounts approximating to their fair values.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Notes to the Financial Statements

For the year ended 31 December 2008

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

Capital risk management (Cont'd)

During 2008, the Group's strategy, which was unchanged from 2007. The Group monitors capital on the basis of the gearing ratio. This gearing ratio is calculated as total borrowing divided by equity attributable to equity holders of the Company.

The Management considers the gearing ratio at the year end was as follows:

	2008	2007
	HK\$'000	HK\$'000
Borrowings (notes 27)	41,507	–
Equity attributable to equity holders of the Company	204,889	291,225
Gearing ratio	20%	–

The increase in the gearing ratio during 2008 resulted primarily from the increase in bank borrowings and decrease in cash and bank balance, which is mainly due to the increase in cash used in investing activities.

6. REVENUE

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

	2008	2007
	HK\$'000	HK\$'000
Novelties and decorations products	125,184	130,498
Packaging products	138,352	124,985
PVC films and plastic materials	72,730	102,479
Toys products	178,505	166,988
	514,771	524,950

Notes to the Financial Statements

For the year ended 31 December 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

2008

	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	125,184	138,352	72,730	178,505	-	514,771
Inter-segment sales	<u>2,007</u>	<u>25,394</u>	<u>2,798</u>	<u>1,277</u>	<u>(31,476)</u>	<u>-</u>
Total revenue	<u>127,191</u>	<u>163,746</u>	<u>75,528</u>	<u>179,782</u>	<u>(31,476)</u>	<u>514,771</u>
RESULT						
Segment result	<u>1,992</u>	<u>3,765</u>	<u>461</u>	<u>4,939</u>	<u>(1,269)</u>	9,888
Loss from investments						(83,860)
Unallocated corporate income						1,952
Finance costs						<u>(1,785)</u>
Loss before tax						(73,805)
Income tax expenses						<u>(61)</u>
Loss for the year						<u>(73,866)</u>

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

For the year ended 31 December 2008

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

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

BALANCE SHEET

	Novelties and decorations products HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	61,253	78,446	23,174	91,769	254,642
Unallocated corporate assets					<u>57,466</u>
Consolidated total assets					<u>312,108</u>
LIABILITIES					
Segment liabilities	44,403	17,291	5,197	25,295	92,186
Unallocated corporate liabilities					<u>5,742</u>
Consolidated total liabilities					<u>97,928</u>
	Novelties and decorations products HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
Capital additions	1,904	3,789	-	2,677	8,370
Depreciation and amortisation	3,935	5,837	54	5,432	15,258
Release of prepaid lease payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>75</u>	<u>75</u>

Notes to the Financial Statements

For the year ended 31 December 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

2007

	Novelties and decorations products HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	130,498	124,985	102,479	166,988	–	524,950
Inter-segment sales	<u>3,018</u>	<u>27,968</u>	<u>4,276</u>	<u>1,056</u>	<u>(36,318)</u>	<u>–</u>
Total revenue	<u>133,516</u>	<u>152,953</u>	<u>106,755</u>	<u>168,044</u>	<u>(36,318)</u>	<u>524,950</u>
RESULT						
Segment result	<u>13,304</u>	<u>(1,676)</u>	<u>(91)</u>	<u>17,594</u>	<u>(1,269)</u>	27,862
Income from investments						10,566
Unallocated corporate income						522
Finance costs						<u>(624)</u>
Profit before tax						38,326
Income tax expenses						<u>(4,229)</u>
Profit for the year						<u>34,097</u>

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

For the year ended 31 December 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

BALANCE SHEET

	Novelties and decorations products HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	74,885	82,207	39,773	93,191	290,056
Unallocated corporate assets					<u>99,213</u>
Consolidated total assets					<u>389,269</u>
LIABILITIES					
Segment liabilities	27,944	17,777	1,738	25,369	72,828
Unallocated corporate liabilities					<u>16,851</u>
Consolidated total liabilities					<u>89,679</u>
	Novelties and decorations products HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
Capital additions	1,754	1,705	5	6,496	9,960
Depreciation and amortisation	4,268	6,549	61	6,085	16,963
Release of prepaid lease payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>75</u>	<u>75</u>

Notes to the Financial Statements

For the year ended 31 December 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(b) Geographical segments

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

	2008	2007
	HK\$'000	HK\$'000
Sales revenue by geographical market:		
Hong Kong	217,574	254,430
Europe	122,237	97,873
America	89,690	66,330
Asia (other than Hong Kong)	74,086	100,015
Others	11,184	6,302
	514,771	524,950

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	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	161,784	241,550	1,036	286
The People's Republic of China (the "PRC")	150,324	147,719	7,334	9,674
	312,108	389,269	8,370	9,960

Notes to the Financial Statements

For the year ended 31 December 2008

8. NET OTHER (LOSSES) INCOMES

	2008	2007
	HK\$'000	HK\$'000
		(Restated)
Net change in fair value of equity-linked note	(2,845)	–
Net change in fair value of investments held-for-trading	(43,932)	(1,738)
Realised (loss) gain on disposal of investments held-for-trading	(28,240)	28,267
Net change in fair value of derivative financial instruments	28,677	(26,082)
Dividends income on listed investments	994	269
Rental income	242	133
Interest income	979	4,773
(Loss) gain on settlement of derivative financial instruments	(39,691)	5,180
Sample sales	1,240	1,974
Scrap sales	536	213
Others	2,993	2,453
Exchange gain	91	–
	(78,956)	15,442

Notes to the Financial Statements

For the year ended 31 December 2008

9. FINANCE COSTS

	2008	2007
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,785	624

10. (LOSS) PROFIT BEFORE TAX

	2008	2007
	HK\$'000	HK\$'000
(Loss) profit before tax has been arrived at after charging:		
Auditors' remuneration	750	750
Cost of inventories recognised as an expense	262,728	278,855
Depreciation of property, plant and equipment	15,258	16,963
Foreign exchange losses, net	1,981	1,625
Allowance for doubtful debts	4,330	925
Loss on disposals of property, plant and equipment	1,071	2,172
Release of prepaid lease prepayments	75	75
Share-based payments expenses	720	2,143
Staff costs (including directors' emoluments)	115,800	115,427
Written down of inventories	1,040	–
Impairment loss on trade receivables	79	–

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For the year ended 31 December 2008

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

Directors	Other emoluments			Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefit scheme contributions HK\$'000	
Poon Siu Chung	–	2,100	45	2,145
Leung Ying Wai, Charles	–	–	–	–
Ip Siu On	–	2,100	30	2,130
Tsui Yan Lee, Benjamin	–	2,260	30	2,290
Lam Yat Cheong	50	–	–	50
Yip Chi Hung	50	–	–	50
Choy Wing Keung, David	50	–	–	50
Total for 2008	150	6,460	105	6,715

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, three (2007: three) were Directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2007: two) individuals were as follows:

	2008 HK\$'000	2007 HK\$'000
Salaries and other benefits	1,432	1,854
Retirement benefit schemes contributions	39	33
	1,471	1,887

Their emoluments were within the following bands:

	2008 Number of employees	2007 Number of employees
Nil – HK\$1,000,000	2	1
HK\$1,000,001– HK\$1,500,000	-	1
	2	2

Notes to the Financial Statements

For the year ended 31 December 2008

12. INCOME TAX EXPENSES

	2008	2007
	HK\$'000	HK\$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	1,771	4,519
PRC Enterprise Income Tax	2	–
	1,773	4,519
(Over)/under-provision in prior years:		
Hong Kong Profits Tax	(76)	89
PRC Enterprise Income Tax	–	–
	(76)	89
	1,697	4,608
Deferred tax credit (note 28)		
Current year	(1,636)	(379)
	61	4,229

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the state Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulations, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was 25% from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC was 25%.

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For the year ended 31 December 2008

12. INCOME TAX EXPENSES (Cont'd)

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

	2008	2007
	HK\$'000	HK\$'000
(Loss) profit before tax	(73,805)	38,326
Tax at Hong Kong Profits Tax of 16.5% (2007: 17.5%)	(12,178)	6,707
Tax effect of income not taxable for tax purposes	(4,871)	(6,805)
Tax effect of expenses not deductible for tax purposes	3,112	2,870
Tax effect on temporary differences not recognised	33	(25)
Tax effect on tax losses not recognised	14,125	1,367
Utilisation of tax losses not previously recognised	(240)	(20)
(Over) under-provision in prior year	(76)	89
Effect of change in tax rate	(66)	–
Effect of different tax rates of group entities operating in the PRC	222	–
Others	–	46
Tax charge for the year	61	4,229

13. DIVIDENDS

	2008	2007
	HK\$'000	HK\$'000
Interim, paid – 0.5 HK cent (2007: 2.5 HK cents) per share	1,521	7,586
Final, paid – 3.5 HK cents per share for 2007 (2007: 5.5 HK cents per share for 2006)	10,573	16,608
	12,094	24,194

The final dividend of 1.0 HK cent (2007: 3.5 HK cents) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting.

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For the year ended 31 December 2008

14. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the net loss for the year of approximately HK\$75,855,000 (2007: profit of HK\$32,207,000) and the following data:

	2008	2007
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	302,942,624	302,481,091
Effect of dilutive potential ordinary shares on share options	<u>1,161,256</u>	<u>6,748,527</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>304,103,880</u>	<u>309,229,618</u>

No diluted loss per share for the year ended 31 December 2008 is presented as the dilutive potential ordinary shares in respect of outstanding share options are anti-dilutive.

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For the year ended 31 December 2008

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Factory premises HK\$'000	Furniture, fixtures and office equipment HK\$'000	Plant, machinery and moulds HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST						
At 1 January 2007	190	39,667	33,795	220,330	4,722	298,704
Exchange alignments	-	-	2	6	-	8
Additions	-	1,424	779	7,039	718	9,960
Disposal	-	(906)	(126)	(4,072)	(305)	(5,409)
At 31 December 2007 and 1 January 2008	190	40,185	34,450	223,303	5,135	303,263
Exchange alignments	-	-	3	15	-	18
Additions	-	1,834	1,331	5,202	3	8,370
Disposal	-	(333)	(179)	(2,058)	(258)	(2,828)
At 31 December 2008	190	41,686	35,605	226,462	4,880	308,823
DEPRECIATION AND AMORTISATION						
At 1 January 2007	69	24,848	26,458	169,523	3,925	224,823
Exchange alignments	-	-	-	1	-	1
Provided for the year	2	2,701	1,605	12,047	608	16,963
Eliminated upon disposals	-	(151)	(43)	(1,043)	(295)	(1,532)
At 31 December 2007 and 1 January 2008	71	27,398	28,020	180,528	4,238	240,255
Exchange alignments	-	-	1	4	-	5
Provided for the year	2	2,646	1,364	10,786	460	15,258
Eliminated upon disposals	-	(133)	(83)	(827)	(257)	(1,300)
At 31 December 2008	73	29,911	29,302	190,491	4,441	254,218
CARRYING VALUES						
At 31 December 2008	117	11,775	6,303	35,971	439	54,605
At 31 December 2007	119	12,787	6,430	42,775	897	63,008

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

Buildings	1%
Factory premises	5%
Furniture, fixtures and office equipment	15-20%
Plant, machinery and moulds	10-20%
Motor vehicles	25-30%

The Group has not obtained Certificate for Housing Ownership in respect of the Group's factory premises with an aggregate net book value of approximately HK\$11,775,000 (2007: HK\$12,787,000) at 31 December 2008.

Notes to the Financial Statements

For the year ended 31 December 2008

16. PREPAID LEASE PAYMENTS

	2008	2007
	HK\$'000	HK\$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in Hong Kong	56	57
Medium-term leasehold land in PRC	153	227
	209	284
Analysed for reporting purposes as:		
Current asset	75	75
Non-current asset	134	209
	209	284

17. GOODWILL

	HK\$'000
COST	
At 1 January 2008 and at 31 December 2008	5,817
IMPAIRMENT	
At 1 January 2008	2,256
Impairment loss recognised for the year	3,561
At 31 December 2008	5,817
CARRYING VALUES	
At 31 December 2008	–
At 31 December 2007	3,561

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

Notes to the Financial Statements

For the year ended 31 December 2008

18. IMPAIRMENT TESTING ON GOODWILL

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 17 has been allocated to two individual cash generating units (CGUs). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2008 allocated to these units are as follows:

	Goodwill
	HK\$'000
<hr/>	
Toys Products Segment	
– Perfectech International Manufacturing Limited	
• Toys Sub-segment (“Toy”) (including Beyond Growth International Limited, Dream Creation Limited, Golden Enterprise Holding Limited and Yu-Me (H.K.) Limited)	–
• Moulds Sub-segment (“Moulds”) (Shouji Tooling Factory Limited)	–
	<hr/>
	<hr/>

19. INVENTORIES

	2008	2007
	HK\$'000	HK\$'000
<hr/>		
Raw materials	46,954	44,251
Work in progress	6,680	7,707
Finished goods	19,240	18,820
	<hr/>	<hr/>
	72,874	70,778
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 December 2008

20. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK\$'000	HK\$'000
Trade receivables	91,182	107,932
Less: allowance for doubtful debts	(16,736)	(12,406)
	74,446	95,526
Prepayment and other receivables	2,022	3,040
	76,468	98,566

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

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

	2008	2007
	HK\$'000	HK\$'000
0 – 60 days	48,218	59,457
61 – 90 days	11,851	12,894
91 – 120 days	7,612	7,604
Over 120 days	6,765	15,571
	74,446	95,526

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

	2008	2007
	HK\$'000	HK\$'000
Balance at the beginning of the year	12,406	11,481
Allowance for doubtful debts during the year	4,330	925
Balance at the end of the year	16,736	12,406

The fair value of the Group's trade and other receivables at 31 December 2008 approximate to the corresponding carrying amount.

Notes to the Financial Statements

For the year ended 31 December 2008

21. OTHER FINANCIAL ASSETS

Bank balance and cash

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 1.70% to 3.94% (2007: 1.75% to 3.85%) with an original maturity of three months or less. Bank overdrafts carry interest at market rates which range from 1.85% to 6.25% per annum. The fair value of these assets at 31 December 2008 approximates to the corresponding carrying amounts.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 HK\$'000	2007 HK\$'000
Financial assets		
Foreign currency forward contracts	—	3,296
Financial liabilities		
Equity accumulators	—	(24,390)
Foreign currency forward contracts	(511)	(8,094)
	(511)	(32,484)
2008		
	HK\$'000	2007
		HK\$'000
Financial assets		
Beginning of the year	3,296	715
Change in fair value of derivative financial instruments	(3,296)	2,581
End of the year	—	3,296
Financial liabilities		
Beginning of the year	(32,484)	(3,821)
Change in fair value of derivative financial instruments	31,973	(28,663)
End of the year	(511)	(32,484)

Notes to the Financial Statements

For the year ended 31 December 2008

22. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

At 31 December 2008, the major terms of the listed equity and foreign currency forward contracts are as follows:

Notional amount	Underlying securities	Maturity	Forward Price
HK\$23,400,000	HK Dollar/US Dollar	16 September 2009	HK\$7.750-7.850

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

23. INVESTMENTS HELD-FOR-TRADING

Investments held-for trading include:

	2008	2007
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong	52,709	11,147
Unlisted debt securities	-	8,245
	52,709	19,392
	2008	2007
	HK\$'000	HK\$'000
Beginning of the year	19,392	11,922
Additions	250,589	561,500
Disposal	(173,340)	(552,292)
Change in fair value on investments held-for-trading	(43,932)	(1,738)
End of the year	52,709	19,392

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

Notes to the Financial Statements

For the year ended 31 December 2008

24. EQUITY-LINKED NOTE

Equity-linked note is designated as financial assets at fair value through profit or loss.

	2008	2007
	HK\$'000	HK\$'000
Carrying amount at the end of the year	4,955	–

	2008	2007
	HK\$'000	HK\$'000
Cost	7,800	–
Change in fair value of equity-linked-note	(2,845)	–
	4,955	–

Major terms of the equity-linked note is as follows:

Notional amount	Maturity
US\$1,000,000	29 January 2009

The equity-linked note has a contract period of 12 months and is callable, bearing interest at maximum 20% per annum. The equity-linked note is linked with HK listed equity at a predetermined strike price.

The equity-linked note is exposed to stock price risk, time risk and implied volatility risk of the underlying stock. At 31 December 2008, the fair value adjustment to the note is mainly related to the fair value of stock price and the strike price of the underlying stock. The time risk and implied volatility risk are minimal to the fair value of the note. Accordingly, the stock price risk will then be considered as the main and the direct risk factor which affects the fair value of the note.

The equity-linked note is measured at fair value at balance sheet date. Its fair value is determined based on the quoted bid price provided by the securities' broker for equivalent instruments at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2008

25. PLEDGED BANK DEPOSITS

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

The deposits carry variable interest rate ranging from 1.70% to 3.94% (2007: 1.75% to 3.85%). The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31 December 2008 approximates to the corresponding carrying amount.

26. TRADE AND OTHER PAYABLES

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

	2008	2007
	HK\$'000	HK\$'000
0 – 60 days	24,565	27,679
61 – 90 days	3,776	3,175
91 – 120 days	1,572	582
Over 120 days	1,362	2,193
	31,275	33,629

The fair value of the Group's trade and other payables at 31 December 2008 approximates to the corresponding carrying amount.

27. BANK BORROWINGS

	2008	2007
	HK\$'000	HK\$'000
Unsecured bank loans	30,679	–
Unsecured trust receipt loans	5,976	–
Secured bank overdraft	4,852	–
	41,507	–

The unsecured bank loans and unsecured trust receipt loans were secured by corporate cross guarantee given by the Group. The unsecured bank loans and unsecured trust receipt loans will be charged at variable interest rates ranging from 1.68% to 6.34%. The secured bank overdraft was secured by the Group's investments held-for-trading. The secured bank overdraft will be charged at variable market rates ranging from 1.85% to 6.93%

Notes to the Financial Statements

For the year ended 31 December 2008

27. BANK BORROWINGS (Cont'd)

The amounts are repayable as follows:

	2008	2007
	HK\$'000	HK\$'000
Within one year	17,693	–
More than two years but not more than five years	23,814	–
Over five years	–	–
	41,507	–
Less: Amount due within one year shown under current liabilities	(17,693)	–
	23,814	–

During the period, the Group obtained a new bank loan of US\$4,400,000 (approximately HK\$34,319,000). 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. During the period, the loan of approximately HK\$3,640,000 was repaid. Besides, the Group raised new trust receipt loans of approximately HK\$67,703,000 and repaid the trust receipt loans of approximately HK\$61,727,000.

28. DEFERRED TAXATION

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

	Accelerated tax depreciation	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	3,535	(1,997)	1,538
(Credit) charge to income for the year	(962)	583	(379)
At 31 December 2007 and 1 January 2008	2,573	(1,414)	1,159
(Credit) to income for the year	(855)	(781)	(1,636)
At 31 December 2008	1,718	(2,195)	(477)

Notes to the Financial Statements

For the year ended 31 December 2008

28. DEFERRED TAXATION (Cont'd)

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

	2008 HK\$'000	2007 HK\$'000
Deferred tax liabilities	1,359	2,262
Deferred tax assets	(1,836)	(1,103)
	(477)	1,159

At the balance sheet date, the Group has unused tax losses of approximately HK\$112,497,000 (2007: HK\$26,891,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$13,304,000 (2007: HK\$8,079,000) of such losses. No deferred tax has been recognised in respect of the remaining HK\$99,193,000 (2007: HK\$18,812,000) due to the unpredictability of future profit streams.

29. SHARE CAPITAL

	Authorised		Issued and fully paid	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Ordinary shares of HK\$0.10 each				
At beginning of the year	700,000	700,000	29,975	30,316
Exercise of share options	-	-	650	200
Share repurchased and cancelled (note 1)	-	-	(755)	(541)
At end of the year	700,000	700,000	29,870	29,975

Notes to the Financial Statements

For the year ended 31 December 2008

29. SHARE CAPITAL (Cont'd)

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

	No. of shares of HK\$0.10 each	Price per share		Aggregate
		Highest HK\$	Lowest HK\$	Consideration Paid HK\$
Month of repurchase				
March 2008	300,000	0.680	–	205,486
April 2008	360,000	0.610	–	221,293
October 2008	1,960,000	0.385	0.335	701,040
November 2008	2,146,000	0.340	0.315	714,186
December 2008	<u>2,792,000</u>	0.355	0.325	<u>972,564</u>
	<u>7,558,000</u>			<u>2,814,569</u>

30. PLEDGE OF ASSETS

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

- (i) Investments held-for-trading with a carrying value of approximately HK\$52,709,000 (2007: 11,147,000); and
- (ii) Bank balances and cash of approximately HK\$121,000 (2007: HK\$74,209,000).

At the balance sheet date, the Group has utilised margin loan facilities from bank with an amount of approximately HK\$4,852,000. The margin loan facilities will be charged at variable market rates ranging from 1.85% to 6.93%.

31. OPERATING LEASES

The Group as lessee

	2008 HK\$'000	2007 HK\$'000
Minimum lease payments paid under operating leases during the year		
Rented premises	<u>7,985</u>	<u>8,366</u>

Notes to the Financial Statements

For the year ended 31 December 2008

31. OPERATING LEASES (Cont'd)

The Group as lessee (Cont'd)

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

	2008	2007
	HK\$'000	HK\$'000
Within one year	6,899	6,354
In the second to fifth years inclusive	12,682	10,289
Over five years	34,400	34,300
	53,981	50,943

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

32. CAPITAL COMMITMENTS

	THE GROUP	
	2008	2007
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, Plant and equipment authorised for but not contracted for	1,396	2,109

33. OTHER COMMITMENTS

At 31 December 2008, the Group did not carry outstanding forward contracts which entailed a commitment for purchase of equity shares (2007: HK\$213,670,000) as disclosed in note 22.

Notes to the Financial Statements

For the year ended 31 December 2008

34. CONTINGENT LIABILITIES (Cont'd)

(a) Contingent liability in respect of legal claim

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

(b) Financial guarantees issued

As at the balance sheet date, the Company has issued the following guarantees:

A corporate guarantee to banks in respect of banking facilities granted to its subsidiaries.

The Company is also one of the entities covered by a cross guarantee arrangement issued by the Company and its subsidiaries to banks in respect of banking facilities granted to the group which remains in force so long as the group has drawn down under the banking facilities. Under the guarantee, the Company and all the subsidiaries that are a party to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

As at the balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees as no loans were drawn down at the balance sheet date.

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

35. SHARE-BASED PAYMENT TRANSACTIONS

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

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

At the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 23,400,000, representing approximately 7.9% of the shares of the Company in issue at that date.

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

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

Total consideration received during the year from the Directors and employees for taking up the options granted during the year is HK\$6 (2007: HK\$10).

All options were vested on the date of grant.

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

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

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

		Number of share options						
Option type		At 1.1.2007	Granted during the year	Exercised during the year	At 31.12.2007 & 1.1.2008	Granted during the year	Exercised during the year	At 31.12.2008
Directors	B	6,000,000	–	(1,000,000)	5,000,000	–	(3,000,000)	2,000,000
	D	–	900,000	–	900,000	–	–	900,000
	E	–	–	–	–	1,000,000	–	1,000,000
		<u>6,000,000</u>	<u>900,000</u>	<u>(1,000,000)</u>	<u>5,900,000</u>	<u>1,000,000</u>	<u>(3,000,000)</u>	<u>3,900,000</u>
Employees	C	9,000,000	–	(1,000,000)	8,000,000	–	(3,500,000)	4,500,000
	D	–	9,500,000	–	9,500,000	–	–	9,500,000
	E	–	–	–	–	3,500,000	–	3,500,000
		<u>9,000,000</u>	<u>9,500,000</u>	<u>(1,000,000)</u>	<u>17,500,000</u>	<u>3,500,000</u>	<u>(3,500,000)</u>	<u>17,500,000</u>
Others	A	1,000,000	–	–	1,000,000	–	–	1,000,000
	B	<u>1,000,000</u>	–	–	<u>1,000,000</u>	–	–	<u>1,000,000</u>
		<u>2,000,000</u>	–	–	<u>2,000,000</u>	–	–	<u>2,000,000</u>
Total	<u>17,000,000</u>	<u>10,400,000</u>	<u>(2,000,000)</u>	<u>25,400,000</u>	<u>4,500,000</u>	<u>(6,500,000)</u>	<u>23,400,000</u>	

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
A	5 June 2002	5 July 2002 to 17 May 2012	0.664
B	2 February 2005	2 May 2005 to 31 December 2014	0.608
C	24 March 2006	24 April 2006 to 31 December 2014	0.540
D	2 November 2007	1 December 2007 to 31 December 2016	0.850
E	14 October 2008	1 November 2008 to 31 December 2017	0.389

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

Notes to the Financial Statements

For the year ended 31 December 2008

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

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

Date of grant	Number of shares issuable under options granted	Option value	Closing share price at date of grant	Risk free rate (being the yield of 10-year exchange fund Notes)	Expected volatility – Note (i)	Expiration of the options	Expected ordinary dividend note (ii)
14 October 2008	4,500,000	HK\$720,000	HK\$0.335	2.7%	62.42%	31 December 2017	4.48%

(i) The volatility measured at the standard deviation of expected share price returns is based on the daily closing prices over the one year immediately preceding the date of grant.

(ii) Expected ordinary dividend is based on 2008 prospective dividend yield of the shares as at 14 October 2008.

The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares on the Stock Exchange.

During the year ended 31 December 2008, options were granted on 14 October 2008. The estimate fair values of the options granted are HK\$720,000.

36. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme are required to switch to the MPF7 Scheme and all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

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

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

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For the year ended 31 December 2008

36. RETIREMENT BENEFITS SCHEME (Cont'd)

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

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in future years, was approximately HK\$Nil (2007: HK\$Nil).

The total cost charged to income of approximately HK\$634,000 (2007: HK\$687,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

37. POST BALANCE SHEET EVENT

Subsequent to year end, the Company has purchased 3,786,000 Shares of its own shares through the Stock Exchange:

	No. of shares of HK\$0.10 each	Price per share		Aggregate
		Highest HK\$	Lowest HK\$	Consideration Paid HK\$
5 Jan 2009	470,000	0.3000	–	142,684
7 Jan 2009	530,000	0.3000	–	160,899
6 Feb 2009	510,000	0.3250	0.3200	166,069
3 Mar 2009	600,000	0.3050	–	185,161
12 Mar 2009	570,000	0.2900	0.2800	164,963
17 Mar 2009	500,000	0.3050	0.2950	152,997
20 Mar 2009	<u>606,000</u>	0.3050	0.3000	<u>186,812</u>
Total	<u>3,786,000</u>			<u>1,159,585</u>

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For the year ended 31 December 2008

38. RELATED PARTY TRANSACTIONS

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

	2008	2007
	HK\$'000	HK\$'000
Rental expenses paid to:		
Nice Step Investment Limited (<i>Note</i>)	-	843
Mr. Poon Siu Chung	240	168

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

(b) Compensation of key management personnel

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

	2008	2007
	HK\$'000	HK\$'000
Short-term benefits	7,559	7,434
Post-employment benefits	149	149
Share-based payments	160	824
	7,868	8,407

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

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For the year ended 31 December 2008

39. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/registered capital held by the Company		Paid up issued/registered ordinary share capital	Principal activities
		Directly	Indirectly		
Asia Rich (Far East) Limited	Hong Kong	–	95.3%	HK\$2	Agreement Holding
Benefit International Packing Materials Limited	Hong Kong	–	100%	HK\$10,000	Trading of PVC films
Benefit Packing Materials Limited	Hong Kong	–	75%	HK\$1,000,000	Trading of PVC films
Beyond Growth International Limited	Hong Kong	–	95.3%	HK\$100,000	Manufacture and sales of toys
Dream Creation Limited	Hong Kong	–	95.3%	HK\$2	Investment holding and distribution of toys
Fareastern Trade Limited	British Virgin Islands (“BVI”)	–	76.2%	US\$87,618	Investment holding
Freshwater Trading Limited	BVI	–	100%	US\$1	Investment holding
Golden Enterprise Holdings Limited	Hong Kong	–	100%	HK\$2	Distribution of toys
Headfit Paper Bags Trading Limited	Hong Kong	–	100%	HK\$10,000	Securities investments and trading of paper bags
iTech Limited	Hong Kong	–	100%	HK\$2	Investment holding
Leader Packaging Company Limited	Hong Kong	–	100%	HK\$1,000,000	Investment holding
Leader Stationery & Gifts Manufacturing Company Limited	Hong Kong	–	100%	HK\$1,000,000	Manufacture and sales of stationery products
Link Faith Company Limited	Hong Kong	–	100%	HK\$100,000	Securities investments
Mars Technology Limited	BVI	–	100%	US\$2	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2008

39. PARTICULARS OF SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/registered capital held by the Company		Paid up issued/registered ordinary share capital	Principal activities
		Directly	Indirectly		
New Genius Technology Limited	BVI	–	100%	US\$1	Investment holding
Onward Packing Manufacturer Limited	Hong Kong	–	100%	HK\$320,000	Manufacture of novelties, festival decorations and packaging products
Perfectech Colour Centre Limited	Hong Kong	–	100%	HK\$1,000,000	Dye stuff manufacturing
Perfectech Enterprises (B.V.I.) Limited	BVI	–	100%	US\$1	Investment holding
Perfectech International (B.V.I.) Limited	BVI	100%	–	US\$50	Investment holding
Perfectech International Toys Limited	Hong Kong	–	100%	HK\$1,000,000	Investment holding
Perfectech International Limited	Hong Kong	–	100%	HK\$200 HK\$80,000 (non-voting deferred shares)	Investment holding
Perfectech International Manufacturing Limited	BVI	–	100%	US\$2,457,000	Investment holding
Perfectech International Packaging Products Company Limited	Hong Kong	–	100%	HK\$450,000	Manufacture of packaging products
Perfectech International Trading Limited	Hong Kong	–	100%	HK\$2	Trading of novelties, festival decorations and packaging products
Perfectech Paper Products Company Limited	Hong Kong	–	99%	HK\$1,000,000	Manufacture of paper products

Notes to the Financial Statements

For the year ended 31 December 2008

39. PARTICULARS OF SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/registered capital held by the Company		Paid up issued/registered ordinary share capital	Principal activities
		Directly	Indirectly		
Perfectech Plastics Limited	Hong Kong	–	100%	HK\$1,000,000	Trading of plastic materials
Perfectech Printing Company Limited	Hong Kong	–	90%	HK\$1,000,000	Printing
Perfectech Rigid (PVC) Pipe Manufacturing Limited	Hong Kong	–	100%	HK\$1,265,587	Investment holding
Shouji Mould Engineering Company Limited	Hong Kong	–	76.2%	HK\$2	Manufacturing of mould
Shouji Tooling Factory Limited	Hong Kong	–	76.2%	HK\$1,000	Manufacture and sales of moulds
Skyrocket Assets Limited	BVI	–	100%	US\$1	Investment holding
Sunflower Garland Manufactory Limited	Hong Kong	–	100%	HK\$2 HK\$160,000 (non-voting deferred shares)	Securities and property investments
Yu-Me (H.K.) Limited	Hong Kong	–	100%	HK\$2	Provision of management services
中山市威嘉紙品有限公司	The PRC	–	100%	HK\$12,500,000	Manufacture of paper products
偉發模具塑膠(深圳)有限公司	The PRC	–	76.2%	HK\$2,000,000	Manufacture and sales of moulds
珠海多發塑膠制品有限公司	The PRC	–	100%	RMB530,600	Trading of novelties and festival decorations products
金正利貿易(深圳)有限公司	The PRC	–	100%	HK\$1,000,000	Trading of PVC films

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

Notes to the Financial Statements

For the year ended 31 December 2008

40. BALANCE SHEET INFORMATION OF THE COMPANY

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

	2008	2007
	HK\$'000	HK\$'000
Unlisted investments in subsidiaries	32,061	32,061
Deferred tax assets	–	96
Bank balance and cash	41	72
Tax asset	–	2
Other current assets	170,991	168,821
Current liability	(10,653)	(153)
Tax liability	(243)	–
Net assets	<u>192,197</u>	<u>200,899</u>
Share capital (note 29)	29,870	29,975
Reserves	<u>162,327</u>	<u>170,924</u>
Total equity	<u>192,197</u>	<u>200,899</u>

Profit of the Company for 2008 amounted to HK\$1.7 million (2007: HK\$70 million).

Financial Summary

RESULTS

	Year ended 31 December				2008 HK\$'000
	2004 HK\$'000 (as restated)	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	
Revenue	509,820	515,875	538,875	524,950	514,771
Profit (loss) before tax	27,180	14,465	39,663	38,326	(73,805)
Income tax expenses	(1,884)	(2,982)	(3,317)	(4,229)	(61)
Profit (loss) for the year	<u>25,296</u>	<u>11,483</u>	<u>36,346</u>	<u>34,097</u>	<u>(73,866)</u>
Attributable to:					
Equity holders of the Company	22,537	10,701	33,763	32,207	(75,855)
Minority interests	<u>2,759</u>	<u>782</u>	<u>2,583</u>	<u>1,890</u>	<u>1,989</u>
Profit (loss) for the year	<u>25,296</u>	<u>11,483</u>	<u>36,346</u>	<u>34,097</u>	<u>(73,866)</u>

ASSETS AND LIABILITIES

	As at 31 December				2008 HK\$'000
	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	
Total assets	341,259	327,718	351,782	389,269	312,108
Total liabilities	<u>(62,802)</u>	<u>(60,250)</u>	<u>(59,251)</u>	<u>(89,679)</u>	<u>(97,928)</u>
Total equity	<u>278,457</u>	<u>267,468</u>	<u>292,531</u>	<u>299,590</u>	<u>214,180</u>
Minority interests	17,470	6,073	7,893	8,365	9,291
Equity attributable to equity holders of the Company	<u>260,987</u>	<u>261,395</u>	<u>284,638</u>	<u>291,225</u>	<u>204,889</u>
Total equity	<u>278,457</u>	<u>267,468</u>	<u>292,531</u>	<u>299,590</u>	<u>214,180</u>