

*Notes:*

- (a) Mr. Leung Ying Wai, Charles, a director of the Company, has beneficial interest in Nice Step Investment Limited.
- (b) Mr. Tong Wui Tung, a non-executive director of the Company, is a partner of Messrs. Cheung, Tong & Rosa, the legal adviser of the Group.
- (c) Mr. Ng Siu Yu, Larry, an independent non-executive director of the Company, has beneficial interest in Run All Limited.

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

During the period, the Group issued guarantees to certain financial institutions to secure general banking facilities granted to the Group including its non-wholly-owned subsidiaries. The extent of such facilities utilised by its non-wholly-owned subsidiaries were HK\$789,000 at 30th June, 2005 (at 31st December, 2004: HK\$7,300,000).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **INTERIM DIVIDEND**

The directors have resolved to declare an interim dividend for the six months ended 30th June, 2005 of 0.5 cent (2004: 1 cent) per share payable on or about 3rd November, 2005 to shareholders on the register of members of the Company (the "Register of Members") on 26th October, 2005.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from 25th October, 2005 to 26th October, 2005, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed interim dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 24th October, 2005.

### **BUSINESS REVIEW**

#### **Core businesses**

During the period, the total turnover of the Group slightly increased by about 2% to approximately HK\$197,567,000, and recorded a loss for the period of approximately HK\$5,097,000.

Due to keen competition in various business segments of the Group, the Group encountered a very tough period for the first half of the year 2005. The ever increasing price of petroleum, which is a major raw material of the Group's products, has made the Group even harder to improve the profit margin of the business. Further, the annual increase in the minimum wages in the PRC has increased pressure on the Group to raise the wages of its PRC employees. As a result, there was an increase of approximately 20% in labour costs.

In addition, following the implementation of the new accounting rules, share options granted to eligible participants represented an expense of approximately of HK\$1,956,000 recognised by the Group.

The turnover of the novelties and decoration segment dropped by about 23%, and thus recorded a loss of approximately HK\$2,572,000. The decrease in the turnover of the segment was mainly due to the further delay of shipment of finished goods as requested by customers. As a result, fixed costs incurred in the first half of the year cut the profit out.

The turnover in the packaging segment remained steady. However, due to keen competition profit margin dropped and as a result the segment recorded a loss of approximately of HK\$821,000. Despite that, it is still the Group's strategy to maintain its leading position in the supply of packaging products.

The price of oil and petroleum has recently increased substantially and the price for both PVC film and plastic materials stand at a high level. The segment always faces with keen competition and low profit margins, since the ultimate customers of consumer products always request a very low price for their consumption. However, despite the adverse factors mentioned above, the segment recorded a growth of approximately 67% in turnover and made a contribution of approximately HK\$1,063,000 to the Group.

In June 2005, the Group completed the acquisition of the remaining interests of 41% of the holding company of the toys segment, Perfectech International Manufacturing Limited ("PIML"). Since then, PIML became the wholly owned subsidiary of the Group. For the details of the acquisition, please refer to the Company's announcement dated 6th May, 2005. Due to time and effort required for consolidation of the business after taking over the turnover of the segment dropped by approximately 26%, and the segment recorded a loss of approximately HK\$813,000.

To the Group, the finance cost amounted to approximately HK\$429,000 (2004: HK\$606,000). Utilisation of banking facilities enhance the Group a better way of utilisation of its funds.

## **Investments**

To well utilize the available cash on hand, the Group has invested in the securities of several unlisted companies in different industries as long-term investment. As at 30th June, 2005, the total investment therein was approximately HK\$1,006,000 (31st December, 2004: HK\$2,239,000). All of these investments were held in convertible notes or preferred shares, which provided a regular income for the Group.

Investment in listed securities is held for short-term purposes for capital gain in the value of the securities. As at the balance sheet date, the market value of investment in securities was approximately HK\$12,340,000 (31st December, 2004: HK\$10,136,000).

As at 30th June, 2005, the Group carried outstanding forward contracts which entailed a commitment for purchase of listed securities of notional amount of approximately HK\$49,016,000 (31st December, 2004: HK\$64,300,000). The commitment will be settled monthly with an amount ranging from HK\$4 million to HK\$8 million. Usually the securities acquired will be disposed shortly, so the commitment is not expected to have a material adverse impact on cash flow.

## **FUTURE PLAN AND PROSPECT**

After the completion of the acquisition of the remaining interests of the toys segment in June 2005, the Group currently further consolidate the four core businesses in order to enhance the synergy effects arising therefrom.

In view of the present unclear global and local economic atmospheres, the ever increasing price of petroleum and the keen competition the Group faces, the improvement of financial performance of the Group in the second half of the year 2005 remains a challenge to the Group.

## **Liquidity and financial resources**

As at 30th June, 2005, the long-term finance lease obligations and bank borrowings of the Group were approximately HK\$11,534,000 (31st December, 2004: HK\$135,000), while the short term bank borrowings were approximately HK\$53,315,000 (31st December, 2004: HK\$5,951,000), and the net book value of the Group's plant and machinery of approximately HK\$355,000 (31st December, 2004: HK\$412,000) was held under a finance lease. The gearing ratio, measured by total bank and other borrowings divided by equity, of the Group was approximately 26.41% (31st December, 2004: 2.33%).

## **Pledge of Assets**

At 30th June, 2005, the following assets were pledged to secure the margin loan facilities granted to the Group:

- (i) Investments in securities with a carrying value of approximately of HK\$2,539,000 (31st December, 2004: HK\$1,527,000); and
- (ii) Bank balances and cash of approximately HK\$10,470,000 (31st December, 2004: HK\$21,264,000).

No margin loan facilities (31st December, 2004: HK\$1,371,000) was utilised by the Group at the balance sheet date.

## **Employees and remuneration policies**

As at 30th June, 2005, the Group employed approximately 6,000 full time employees. The Group remunerates its employees by reference to the prevailing industry practice as well as individual merits. The Group has also adopted a share option scheme for its full time employees.

## **Foreign currency exposure**

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar, with some in Renminbi and Euro Dollar. Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exchange risk exposure in this regard.

As for currencies other than Hong Kong Dollar, the Group will closely monitor their movement trends in relation to US Dollar and will engage in exchange rate hedges when necessary.

At 30th June, 2005, the Group did not use any financial instrument for hedging purposes.

## **SHARE OPTIONS SCHEME**

A share option scheme (the "Scheme") was adopted in the Annual General Meeting held on 17th May, 2002 and will expire on 16th 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.

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 8,000,000, representing approximately 2.57% 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 shall not exceed 10% of the shares of the Company in issue as at the date of adoption of the Scheme. In addition, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year shall not exceed 1% of shares of the Company in issue, at any point at time, without prior approval from the Company's shareholder.

Options granted must remain open for acceptance until 5:00 p.m. on the 5th business day following the offer date provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date or after the Scheme has been terminated. Options may be exercised during the period as the 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 options and the board of directors may provide restrictions on the exercise of an option during the period an option may be exercised. 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.

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

	Number of options outstanding at 1/1/2005	Number of options granted during the period	Number of shares issued and exercise of options during the period	Number of options outstanding at 30/6/2005	Date granted	Exercise price per share HK\$	Exercisable Period
Directors							
– Ip Siu On	–	3,000,000	–	3,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
– Tsui Yan Lee, Benjamin	–	3,000,000	–	3,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
Employees	–	4,900,000	2,900,000	2,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
	<u>–</u>	<u>10,900,000</u>	<u>2,900,000</u>	<u>8,000,000</u>			
Others	1,000,000	–	–	1,000,000	05-Jun-02	0.664	05-Jul-05 to 17-May-12
	–	1,000,000	–	1,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
	<u>1,000,000</u>	<u>1,000,000</u>	<u>–</u>	<u>2,000,000</u>			
Grand Total	<u>1,000,000</u>	<u>11,900,000</u>	<u>2,900,000</u>	<u>10,000,000</u>			

The closing price of the Company's shares immediately before 5th June, 2002, and 2nd February, 2005, the dates of grant of the options, were HK\$0.64 and HK\$0.60 respectively.

The weighted average closing price of the shares immediately before the dates on which options were exercised was HK\$0.646.

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

Date of grant	Number of shares issuable under options granted	Option value	Closing share price at date of grant	Risk free rate (being the yield of 10-year Exchange Fund Notes)	Expected volatility – note (i)	Expiration of the options	Expected ordinary dividend note (iii)
2nd February, 2005	11,900,000	1,951,600	HK\$0.600	3.60%	40.00%	31st December, 2014	7.50%

- (i) The volatility measured at the standard deviation of expected share price returns is based on the daily closing prices over the one year immediately preceding the date of grant.
- (ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares on the Stock Exchange.
- (iii) Expected ordinary dividend is based on 2005 prospective dividend yield of the shares as at 2nd February, 2005.

## DIRECTORS' INTERESTS IN SHARES

At 30th June, 2005, the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

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

Directors	Capacity	No. of shares held	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner Interest of spouse and controlled corporation	17,290,000 101,757,630	119,047,630 (a)	38.49
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 (b)	20.40
Mr. Ip Siu On	Beneficial owner	6,803,600	6,803,600	2.20
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	3,411,000	3,411,000	1.10
Mr. Ng Siu Yu, Larry	Beneficial owner	880,000	880,000	0.28

#### Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 17,290,000 shares (“Shares”) of the Company and he was deemed to be interested in 101,757,630 Shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor. Of these shares, 618,200 shares are held in trust for others.

- (b) 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.

**(B) Right to acquire shares of the Company**

Other than the share options disclosed in the section “Share Option Scheme”, at no time during the period was the Company or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by the means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

**(C) Long Position in shares of associated corporations of Company**

Directors	Name of associated corporation	Capacity	No. of shares held	Total	% of issued share capital of associated corporation
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner	200		
		Interest of spouse	200	400 (c)	50
	Sunflower Garland Manufactory Limited	Beneficial owner	60,800		
		Interest of spouse	20,800	81,600 (d)	51
Mr. Leung Ying Wai, Charles	Perfectech International Limited	Interest of spouse	400	400 (e)	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:*

- (c) 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.



- (d) 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.
- (e) Mr. Leung Ying Wai, Charles was deemed to be interested in 400 Perfectech Shares through interests of his spouse, Ms. Tai Yee Foon.

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 in any securities of the Company or any of its associated corporations as defined in the SFO.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

Other than the interests disclosed above in the section “Directors’ Interests”, as at 30th June, 2005, the register of substantial shareholders’ interests and short positions in the shares and underlying shares of the Company maintained under Section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

### Long Positions in shares of the Company

Shareholders	Capacity	No. of shares held	Total	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Interest of spouse and controlled corporation	119,047,630	119,047,630(f)	38.49
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200	63,097,200(g)	20.40

*Notes:*

- (f) Ms. Lau Kwai Ngor was deemed to be interested in 119,047,630 Shares through interests of her spouse, Mr. Poon Siu Chung (Please refer to Note (a) above).
- (g) Ms. Tai Yee Foon was deemed to be interested in 63,097,200 Shares through interests of her spouse, Mr. Leung Ying Wai, Charles (Please refer to Note (b) above).

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period.

## **CORPORATE GOVERNANCE**

The Company has adopted throughout the period ended 30th June, 2005 with the Code of Corporate Governance Practices (“Code Provisions”) set out in the Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange.

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

### **Code A.2.1**

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

Mr. Poon Siu Chung is the Chairman and Chief Executive of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets 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 believe that having Mr. Poon performing the roles of Chairman and Chief Executive is beneficial to the business prospects of the Company.

### **Model Code for Securities Transactions by Directors**

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

After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding Directors, securities transactions during the six months ended 30th June, 2005.

### **AUDIT COMMITTEE**

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

The audit committee has reviewed and discussed with management the accounting principles and practices adopted by the Group, auditing internal controls and financial reporting matters including the unaudited condensed consolidated interim financial statements for the six months ended 30th June, 2005 of the Company now reported on.

## **DIRECTORS OF THE COMPANY**

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

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

Hong Kong, 22nd September, 2005