

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 43 to the financial statements.

During the year, the Group further acquired from the minority shareholders the remaining 41% equity interest in Perfectech International Manufacturing Limited, a company engaged in manufacture and trading of toy products, for a total consideration of HK\$17 million.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 40.

An interim dividend of 0.5 cent per share amounting to approximately HK\$1,557,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 1.5 cents per share to the shareholders on the register of members on 24th May, 2006, amounting to approximately HK\$4,623,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the total turnover.

The five largest suppliers of the Group in aggregate accounted for approximately 54% of the total purchases of the Group and the largest supplier accounted for approximately 32% 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 suppliers.

INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the year end date. The revaluation resulted in a surplus of approximately HK\$4,040,000, which has been credited directly to the consolidated income statement.

Details of this movement during the year in the investment properties of the Group are set out in note 17 to the financial statements.

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PROPERTY, PLANT AND EQUIPMENT

The Group continued its replacement policy and expended HK\$15,369,000 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 32 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31st December, 2005, 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\$52,460,000 of which HK\$4,623,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$77,723,000, may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive directors

Mr. Poon Siu Chung

(Chairman and Managing Director)

Mr. Leung Ying Wai, Charles

(Deputy Chairman)

Mr. Ip Siu On

Mr. Tsui Yan Lee, Benjamin

Non-executive director

Mr. Tong Wui Tung

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Independent non-executive directors

Mr. Ng Siu Yu, Larry

Mr. Lam Yat Cheong

Mr. Yip Chi Hung

In accordance with Clause 99(B) of the Company's bye-laws, Mr. Poon Siu Chung retires by rotation and, being eligible, offers himself 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 non-executive directors have been appointed for a term of approximately one year.

All non-executive director and independent non-executive directors will hold office until the conclusion of the forthcoming annual general meeting of the Company.

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DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31st December, 2005, 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 | No. of shares held | Total | % of issued share capital of the Company |
|-----------------------------|---|--------------------|-----------------|--|
| Mr. Poon Siu Chung | Beneficial owner | 19,688,000 | 121,445,630 (a) | 39.11 |
| | Interest of spouse and controlled corporation | 101,757,630 | | |
| Mr. Leung Ying Wai, Charles | Interest of spouse and controlled corporation | 63,097,200 | 63,097,200 (b) | 20.32 |
| Mr. Ip Siu On | Beneficial owner | 6,803,600 | 6,803,600 | 2.19 |
| 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 19,688,000 shares of the Company and he was deemed to be interested in 101,757,630 shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor. Of these shares, 618,200 shares are held in trust for others.
- (b) 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.

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

| Director | Name of associated corporation | Capacity | No. of shares held | | % of issued share capital of the associated corporation |
|-----------------------------|---------------------------------------|--------------------|--------------------|------------|---|
| | | | | Total | |
| Mr. Poon Siu Chung | Perfectech International Limited | Beneficial owner | 200 | | 50 |
| | | Interest of spouse | 200 | 400 (d) | |
| | Sunflower Garland Manufactory Limited | Beneficial owner | 60,800 | | 51 |
| | | Interest of spouse | 20,800 | 81,600 (e) | |
| 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:

- (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.

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 31st December, 2005.

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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 1.1.2005 | Number of options granted during the year | Number of exercised options during the year | Number of options outstanding at 31.12.2005 | Date granted | Exercise price per share HK\$ | Exercisable period |
|------------------------|--|---|---|---|--------------------|--|--|
| Directors | | | | | | | |
| Ip Siu On | - | 3,000,000 | - | 3,000,000 | 2nd February, 2005 | 0.608 | 2nd May, 2005 – 31st December, 2014 |
| Tsui Yan Lee, Benjamin | - | 3,000,000 | - | 3,000,000 | 2nd February, 2005 | 0.608 | 2nd May, 2005 – 31st December, 2014 |
| Employees | - | 4,900,000 | (4,900,000) | - | 2nd February, 2005 | 0.608 | 2nd May, 2005 – 31st December, 2014 |
| | - | 10,900,000 | (4,900,000) | 6,000,000 | | | |
| Others | 1,000,000 | - | - | 1,000,000 | 5th June, 2002 | 0.664 | 5th July, 2002 – 17th May, 2012 |
| | - | 1,000,000 | - | 1,000,000 | 2nd February, 2005 | 0.608 | 2nd May, 2005 – 31st December, 2014 |
| | 1,000,000 | 1,000,000 | - | 2,000,000 | | | |
| Grant Total | 1,000,000 | 11,900,000 | (4,900,000) | 8,000,000 | | | |

The closing price of the Company's shares on 5th June, 2002 and 2nd February, 2005, the dates of grant of the options, were HK\$0.66 and HK\$0.60 respectively.

The weighted average closing price of the shares on the dates on which options were exercised was HK\$0.618.

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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 | 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 | HK\$1,497,000 | 2.811% | 37.82% | 31st December, 2014 | 8.33% |

- (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.

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' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

- (a) During the year, Perfectech International Limited ("Perfectech"), a wholly-owned subsidiary of the Company, entered into tenancy agreements to rent the following premises from Nice Step Investment Limited, a company controlled by Mr. Leung Ying Wai, Charles, a substantial shareholder and director of the Company:
- (i) premises at the 1st floor (with gross floor area of approximately 5,070 sq.ft.) of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of one year commencing from 11th July, 2005 at a monthly rent of HK\$25,350.
- (ii) premises at the 2nd floor (with gross floor area of approximately 5,070 sq.ft.) and car parking space No.3 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 20th April, 2003 at a monthly rent of HK\$21,266.

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- (iii) premises at the 3rd floor (with gross floor area of approximately 5,070 sq.ft.) and car parking space No.4 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 20th April, 2003 at a monthly rent of HK\$21,266.
- (iv) premises at the 4th floor (with gross floor area of approximately 3,096 sq.ft.), flat roof at the 4th floor (with gross floor area of approximately 1,963 sq.ft.) and car parking space No.5 on the ground floor of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 20th April, 2003 at a monthly rent of HK\$18,280.
- (v) premises at the 5th floor (with gross floor area of approximately 3,096 sq.ft.) of Perfectech Centre, 64 Wong Chuk Hang Road, Hong Kong. The tenancy is for a period of three years commencing from 15th August, 2003 at a monthly rent of HK\$10,836.

During the year, the Group paid rental expenses of approximately HK\$999,000 to Nice Step Investment Limited.

- (b) On 2nd February, 2005, Perfectech 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\$14,000 for a period of three years commencing from 1st January, 2005. 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\$504,000. During the year, the Group paid rent to Mr. Poon Sui Chung totalling HK\$168,000.
- (c) During the year, the Group issued guarantees to financial institutions to secure general banking facilities granted to the Group including its subsidiaries which are not wholly-owned by the Group, known as Perfectech Paper Products Company Limited ("Paper"), Perfectech Printing Company Limited ("Printing") and Shouji Tooling Factory Limited ("Shouji"). Details of the guarantees and amount utilised as at 31st December, 2005 are as follows:

| Subsidiaries connected | In favour of | Guarantee amount HK\$ | Amount utilised HK\$ |
|------------------------|---|-----------------------------|----------------------------|
| Paper and Printing | Standard Chartered Bank | 33,800,000 | – |
| | The Hong Kong and Shanghai Banking Corporation Limited | 90,000,000 | – |
| Shouji | Standard Chartered Bank | 30,500,000 | – |
| | The Hong Kong and Shanghai Banking Corporation Limited | 50,000,000 | – |
| | Hang Seng Bank | 40,000,000 | – |

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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.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section "Directors' Interests in Shares", as at 31st December, 2005, 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 | No. of shares held | % of issued share capital of the Company |
|----------------------------------|---|--------------------|--|
| Ms. Lau Kwai Ngor | Interest of spouse and controlled corporation | 121,445,630 (a) | 39.11 |
| Ms. Tai Yee Foon | Interest of spouse and controlled corporation | 63,097,200 (b) | 20.32 |
| Allianz Aktiengesellschaft | Interest of controlled corporation | 62,404,971 (c) | 20.10 |
| Dresdner Bank Aktiengesellschaft | Interest of controlled corporation | 62,404,971 (c) | 20.10 |
| Veer Palthe Voûte NV | Investment Manager | 62,404,971 (c) | 20.10 |

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Notes:

- (a) Under the SFO, Ms. Lau Kwai Ngor was deemed to be interested in 121,445,630 shares of the Company through interests of her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 19,688,000 shares of the Company and he was deemed to be interested in 101,757,630 shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor. Of these shares, 618,200 shares are held in trust for others.
- (b) Under the SFO, Ms. Tai Yee Foon was deemed to be interested in 63,097,200 shares of the Company through interests of her spouse, Mr. Leung Ying Wai, Charles. Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, Ms. Tai Yee Foon and his family members.
- (c) Subsequent to 31st December, 2005, the Company on 21st March, 2006 received the notices of interest from Allianz Aktiengesellschaft, Dresdner Bank Aktiengesellschaft and Veer Palthe Voûte NV which showed that as at 31st December, 2005 they had noticeable interests under the SFO as set out above.

Under the SFO, Allianz Aktiengesellschaft and Dresdner Bank Aktiengesellschaft were deemed to be interested in the 62,404,971 shares of the Company held by Veer Palthe Voûte NV.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE

The Company has adopted throughout the year ended 31st December, 2005 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 15 to 26 of this annual report.

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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 | Lowest | consideration |
| | | HK\$ | HK\$ | paid |
| November 2005 | 322,000 | 0.59 | 0.56 | 187,804 |
| December 2005 | 440,000 | 0.58 | 0.55 | 249,202 |
| | 762,000 | | | 437,006 |

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 39 to the financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

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POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 41 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Poon Siu Chung

Chairman & Managing Director

Hong Kong, 25th April, 2006