

## **FUTURE PLAN AND PROSPECT**

Since the segment of packaging products incurred a substantial loss in the first half of the year, much effort will have to be put in stopping further loss. Measures such as discontinuing the operation of certain businesses within the segment and re-studying the feasibility of new projects are being considered. Further investment on capital expenditure will only be made when necessary.

Although the average 20% increase in the minimum wage of labour in the PRC effective from 1st July, 2006 together with the adverse performance of the segment of packaging products are expected to continue to affect the Group's performance, since the segments of novelties and decorations, due to the improvement in profit margin, and toy products continue to grow and contribute to the Group and are expected to continue improvement in the second half of the year, the Directors of the Company are optimistic about the overall improvement of performance of the Group in the coming quarters.

### **Liquidity and financial resources**

As at 30th June, 2006, the Group had no long-term finance lease obligations and bank borrowings (31st December, 2005: HK\$500,000), while the short-term bank borrowings and overdraft were approximately HK\$28,181,000 (31st December, 2005: HK\$6,135,000), and the net book value of the Group's plant and machinery of approximately HK\$240,000 (31st December, 2005: HK\$297,000) was held under a finance lease. The gearing ratio of the Group, measured by total bank and other borrowings divided by equity, was approximately 10.85% (31st December, 2005: 2.54%).

### **Finance costs**

The Group's finance cost amounted to approximately HK\$321,000 (2005: HK\$429,000).

### **Pledge of Assets**

At 30th June, 2006, the following assets were pledged to secure the margin loan facilities granted to the Group:

- (i) Investments held-for-trading with a carrying value of approximately of HK\$3,543,000 (31st December, 2005: HK\$2,915,000); and
- (ii) Bank balances and cash of approximately HK\$12,852,000 (31st December, 2005: HK\$8,724,000).

The margin loan facilities utilised by the Group at the balance sheet date amounted to approximately HK\$1,449,000 (31st December, 2005: HK\$1,329,000), which were included in other payables.

## **Employees and remuneration policies**

As at 30th June, 2006, the Group employed approximately 5,300 full time employees. The Group remunerates its employees by reference to the prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its 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, 2006, the Group did not use any financial instrument for hedging purposes.

## **SHARE OPTIONS SCHEME**

A share option scheme (the "Scheme") was adopted pursuant to 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 17,000,000, representing approximately 5.58% 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. 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 1/1/2006	Number of options granted during the period	Number of shares issued and exercise of options during the period	Number of options outstanding at 30/6/2006	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	–	9,000,000	–	9,000,000	24-Mar-06	0.540	24-Apr-06 to 31-Dec-14
	<u>6,000,000</u>	<u>9,000,000</u>	<u>–</u>	<u>15,000,000</u>			
Others	1,000,000	–	–	1,000,000	05-Jun-02	0.664	05-Jul-02 to 17-May-12
	1,000,000	–	–	1,000,000	02-Feb-05	0.608	02-May-05 to 31-Dec-14
	<u>2,000,000</u>	<u>–</u>	<u>–</u>	<u>2,000,000</u>			
Grand Total	<u>8,000,000</u>	<u>9,000,000</u>	<u>–</u>	<u>17,000,000</u>			

The closing price of the Company's shares on 5th June, 2002, 2nd February, 2005 and 24th March, 2006, the dates of grant of the options, were HK\$0.64, HK\$0.60 and HK\$0.52 respectively.

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)
24th March, 2006	9,000,000	1,323,000	HK\$0.520	4.540%	41.68%	31st December, 2014	5.29%

- (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 2006 prospective dividend yield of the shares as at 24th March, 2006.