REVIEW OF RESULTS

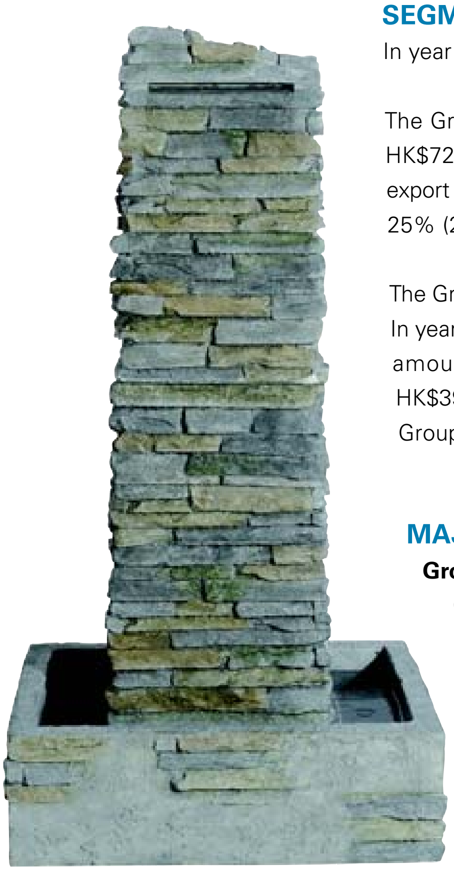
The Group's consolidated turnover for year 2006 was HK$1,089,200,000 (2005: HK$1,161,200,000), decreased by 6% as compared to that of year 2005. The major reason for the decrease in total turnover was the official disposal of the German operations in August 2006. Since September 2006, such business results have not been consolidated in the Group's consolidated financial statements. As a result, the consolidated turnover was decreased in year 2006 as compared to that of year 2005.

Profit attributable to shareholders for year 2006 amounted to HK$13,800,000 (2005: loss of HK$16,700,000). Excluding the gain on disposal for the sale of the office premise in Hong Kong for HK$20,900,000, the Group recorded an operating loss of HK$7,100,000 for year 2006, decreased by 57% as compared to that of year 2005. The major reasons for the Group's loss in year 2006 were:

(1) Due to the delay of order confirmation by some customers, sales was unsatisfactory in the second half of the year;

(2) Expenses incurred due to the restructuring of overseas subsidiary companies;

(3) Increase of customers' sales claims.



SEGMENTAL TURNOVER

In year 2006, the United States and Europe remained the Group's largest markets.

The Group's export sales to the United States decreased by 7% to HK$675,000,000 (2005: HK$723,600,000), representing 62% (2005: 62%) of the Group's total turnover. The Group's export sales to Europe decreased 8% to HK$267,700,000 (2005: HK$292,100,000), representing 25% (2005: 25%) of the Group's total turnover.

The Group's major products were outdoor decorative products and indoor decorative products. In year 2006, the total turnover of outdoor decorative products and indoor decorative products amounted to HK$679,000,000 (2005: HK$634,600,000) and HK$315,500,000 (2005: HK$398,100,000) respectively, representing 62% (2005: 55%) and 29% (2005: 34%) of the Group's total turnover respectively.

MAJOR DISPOSAL EVENTS

Group's subsidiary company in Germany – Heissner AG

On 28 March 2006, the Group signed the Sales and Purchase Agreement and other relevant agreements with the German investment company. It was agreed that 81% of the shares of Heissner AG would be disposed to the German investment company. On 27 June 2006, the Group convened a Special General Meeting, and the transaction was approved.

The management estimated that the Group will receive a consideration of Euro2,000,000 to Euro2,500,000 in year 2012. According to the sales agreement, the amount due from Heissner AG to the Group will be gradually reduced from US$7,600,000 as at 31 March 2006 to US$2,000,000 as at 1 July 2010. Apart from the provision of HK$1,800,000 made for the loss on disposal of Heissner AG in 2005, the remaining loss arising from the disposal of HK$14,200,000 had been reflected in the Group's consolidated financial statements in year 2006.

Disposal of the office premises situated in Hong Kong

On 17 August 2006, the Group sold the office premises to the independent third party for a consideration of HK$43,000,000 in Hong Kong. Consequently, the Group recorded a gain on disposal of HK$20,900,000. The cash proceeds have been used to reduce the bank borrowing and enhance the liquidity of the Group.

FINANCIAL AND MANAGEMENT REVIEW

Cost Control

During the period under review, through product research and development to enhance product value and tighten production cost control, the Group's gross profit margin was increased from 34.2% in year 2005 to 38.8% in year 2006.

Selling, General and Administrative and Other Expenses

In year 2006, total selling expenses of the Group was HK$267,200,000 (2005: HK$256,800,000), representing 25% (2005: 22%) of the total turnover. The increase in total selling expenses was mainly due to the increase of customers' sales claims from HK$18,500,000 in year 2005 to HK$51,600,000 in year 2006.

In year 2006, total general and administrative expenses of the Group was HK$129,300,000 (2005: HK$147,300,000), decreased by 12% as compared to that of year 2005, representing 12% (2005: 13%) of total turnover.

In year 2006, total other operating expenses of the Group was approximately HK$18,000,000 (2005: HK$5,000,000), mainly due to the loss on disposal of Heissner AG and bad debt provision of accounts receivables. Heissner AG had operating profit of HK$20,100,000 recorded for the year which has been consolidated in the Group's consolidated income statement.

Other income and gains

In year 2006, the Group recorded a gain on disposal of office premises in Hong Kong amounted to HK$20,900,000.

Liquidity, Financial Resources and Finance Costs

The Group finances its operations with internally generated cash flows and banking facilities. As at 31 December 2006, the Group had aggregate available banking facilities of HK$389,800,000 (2005: HK$500,400,000), of which HK$256,300,000 (2005: HK$414,100,000) was utilized and subject to floating market rates. The Group's cash and bank balance at that date amounted to HK$27,800,000 (2005: HK$44,900,000), which was denominated in United States dollars, Hong Kong dollars, Euros and Renminbi. This together with unutilized banking facilities will enable the Group to finance its operational needs.

As at 31 December 2006, the Group's current ratio and quick ratio were 87% (2005: 88%) and 47% (2005: 54%) respectively. At that date, the Group's total borrowing, was reduced from HK$333,400,000 as at 31 December 2005 to HK$251,000,000, which included short-term borrowing and long-term borrowing of HK$245,600,000 (2005: HK$322,400,000) and HK$5,400,000 (2005: HK$11,000,000) respectively. The decrease in total borrowing was due to the disposal of some assets and the continuous improvement of cashflow from operating activities. As at 31 December 2006, the Group's gearing ratio, defined as total borrowing as percentage of total assets, was 39% (2005: 36%).

In year 2006, total finance cost incurred by the Group was HK$29,300,000 (2005: HK$28,500,000), representing a 3% increase. The Group continues to implement prudent financing policy to reduce short-term borrowing as far as possible in order to ensure that the Group will not be affected by short-term uncertainties.

Capital Expenditure

The Group incurred a total capital expenditure of HK$15,700,000 (2005: HK$57,900,000) in year 2006, which included: HK$1,000,000 (2005: HK$10,700,000) for expanding the manufacturing plants in the PRC, HK$8,500,000 (2005: HK$35,000,000) for acquiring mould, machinery and equipment in the PRC and Vietnam, and HK$6,100,000 (2005: HK$12,100,000) for acquiring other fixed assets.

Foreign Exchange Exposure

For year 2006, the Group's major revenue was denominated in the United States dollars and Euros, while banking facilities repayment and purchase were made essentially in the corresponding currencies and Renminbi, thus establishing a natural hedge. During the year under review, the Group was exposed to certain risks of exchange fluctuations. To further reduce exchange risks, the Group has utilized foreign exchange hedging tools and will continue to closely monitor exchange rate movements.

Impact of the Revaluation of Renminbi

All of the Group's sales are denominated in either United States dollars or Euros while some of the Groups' purchases are denominated in Renminbi. As at 31 December 2006, the Group had an outstanding balance of accounts payable and bank loans, denominated in Renminbi, for HK$71,500,000 (2005: HK$29,400,000) and HK$78,100,000 (2005: HK$75,500,000) respectively. As at 31 December 2006, there was no outstanding trust receipt loans denominated in Renminbi (2005: HK$11,100,000). The fluctuation of Renminbi exchange rate has affected the business operations of the Group. During the period under review, the appreciation of Renminbi has caused slightly adverse effect on the current operating results and financial position of the Group. To reduce the possible impact in the future, the Group has negotiated to reduce purchases nominated in Renminbi and incorporate the exchange risk in all quotations.

Contingent Liability

As at 31 December 2006, the Group had no significant contingent liability (2005: HK$7,800,000).

Charge on Assets

As at 31 December 2006, certain assets of the Group with aggregate carrying value of HK$135,400,000 (2005: HK$182,800,000) were pledged to secure loan facilities utilized by the Group.

Employees

As at 31 December 2006, the Group had a total of 5,700 (2005: 7,400) employees. Total staff cost incurred during the year 2006 amounted to HK$83,200,000 (2005: HK$102,800,000) excluded staff cost included in cost of sales & directors' remuneration. The Group offers a comprehensive remuneration and benefit package to its employees, and remuneration policies are reviewed by the management on a regular basis.

The Group also adopts a share option scheme which is reviewed and revised periodically in accordance with the latest statutory requirements. The Group has already taken into account the comparable remuneration level of the market when structuring the scheme.

PROSPECTS

Looking forward, the Group will continue to focus on its manufacturing business in Asia and minimize direct participation in the market management, so as to avoid unnecessary business risk. Besides, the Group will integrate current resources through reallocation or focusing on the management of existing manufacturing facilities to increase production capability and reduce the fixed operating expenses and production costs of the manufacturing plants in order to increase competitiveness.

Leveraging on the Group's existing production capacity, its development and research ability and its management team, the management strongly believe that the Group will be able to maintain its leading position in the industry despite intensifying competition in Asia's manufacturing industry.

As regard to products, the Group continues to create new products with different designs and materials through technical developments in order to meet the needs of the major customers in Europe and the United States. To reduce the customers' claims, the Group will spend more resources on product research development and manufacturing.

As regard to customers, the Group continues to focus on large chain stores, namely Lowes, Wal-mart, K-mart, Target, and etc. Despite there was a delay of confirmation of orders after the fourth quarter of year 2006, the management has been actively negotiating with our customers and expects the situation to be gradually improved after the second half of year 2007.