



Peaktop International Holdings Limited

(Incorporated in Bermuda with limited liability)  
(Stock Code: 925)



Interim Report 2007





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## CORPORATE INFORMATION

### Board of Directors

#### *Executive Directors*

Mr. LIN Chun Kuei  
*(Chairman and Chief Executive Officer)*  
Mr. Andree HALIM *(Co-vice Chairman)*  
Mr. NG Kin Nam *(Co-vice Chairman)*  
Mr. LI Chien Kuan  
Mr. LIN Chun Fu  
Ms. LIN HUANG Su Feng  
*(resigned on 17 July 2007)*  
Mr. CHEUNG Kwok Ping  
*(resigned on 17 July 2007)*

#### *Independent Non-executive Directors*

Mr. GOH Gen Cheung  
Mr. MA Chiu Cheung, Andrew  
Mr. NG Tang Fai, Ernesto  
*(appointed on 30 May 2007)*  
The Hon. Bernard Charnwut CHAN  
*(resigned on 30 May 2007)*

### Audit Committee

Mr. MA Chiu Cheung, Andrew *(Chairman)*  
Mr. GOH Gen Cheung  
Mr. NG Tang Fai, Ernesto

### Nomination Committee

Mr. NG Tang Fai, Ernesto *(Chairman)*  
Mr. GOH Gen Cheung  
Mr. MA Chiu Cheung, Andrew  
Mr. LIN Chun Kuei  
Mr. LI Chien Kuan

### Remuneration Committee

Mr. GOH Gen Cheung *(Chairman)*  
Mr. MA Chiu Cheung, Andrew  
Mr. NG Tang Fai, Ernesto  
Mr. LIN Chun Kuei  
Mr. LI Chien Kuan

### Qualified Accountant and Company Secretary

Mr. TONG Chak Wai, Wilson

### Auditors

CCIF CPA Limited  
Certified Public Accountants

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Head Office and Principal Place of Business

Unit 1603-1605, 16th Floor  
Tower III, Enterprise Square  
9 Sheung Yuet Road  
Kowloon Bay  
Kowloon  
Hong Kong

### Principal Bankers

Bangkok Bank Public Company Limited  
Citic Ka Wah Bank Limited  
DBS Bank (Hong Kong) Limited  
Fubon Bank (Hong Kong) Limited  
Indover Bank (Asia) Limited  
Industrial and Commercial Bank of China  
(Asia) Limited  
Public Bank (Hong Kong) Limited

### Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited  
Bank of Bermuda Building  
6 Front Street  
Hamilton HM 11  
Bermuda

### Hong Kong Branch Share Registrar and Transfer Office

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

### Share Listing

The Stock Exchange of Hong Kong  
Limited  
(Stock code: 925)

## RESULTS

The Board of Directors (the "Board") of Peaktop International Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007, together with the unaudited comparative figures for the corresponding period in 2006 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		<b>Six months ended 30 June</b>	
		<b>2007</b>	2006
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>REVENUE</b>	3	<b>285,580</b>	735,087
Cost of sale		<b>(218,184)</b>	(464,305)
Gross profit		<b>67,396</b>	270,782
Other income and gains		<b>3,124</b>	6,440
Selling and distribution costs		<b>(59,728)</b>	(179,237)
Administrative expenses		<b>(47,704)</b>	(68,402)
Other operating expenses		<b>(545)</b>	(652)
<b>(LOSS)/PROFIT FROM OPERATIONS</b>	4	<b>(37,457)</b>	28,931
Finance costs	5	<b>(10,287)</b>	(16,566)
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		<b>(47,744)</b>	12,365
Taxation	6	<b>185</b>	(1,424)
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		<b>(47,559)</b>	10,941
Attributable to:			
Equity holders of the Company		<b>(47,466)</b>	10,525
Minority interests		<b>(93)</b>	416
		<b>(47,559)</b>	10,941
<b>(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	8		
Basic		<b>(HK5.5 cents)</b>	HK1.2 cents
Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	At 30 June 2007 (Unaudited) HK\$'000	At 31 December 2006 (Audited) HK\$'000
<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	190,913	188,881
Investment properties	9,970	9,970
Prepaid land lease payments	66,659	66,652
Goodwill	3,459	3,459
Other intangible assets	4,808	5,796
Interests in an associate	(46)	(46)
Available-for-sale equity investments	12,707	12,707
Financial assets at fair value through profit and loss	20,460	20,460
Deferred tax assets	2,107	1,484
<b>TOTAL NON-CURRENT ASSETS</b>	<b>311,037</b>	<b>309,363</b>
<b>CURRENT ASSETS</b>		
Trading securities	936	936
Inventories	133,633	152,852
Accounts and bills receivable	80,977	113,377
Prepayments, deposits and other receivables	44,922	35,074
Pledged deposits	1,270	1,021
Cash and cash equivalents	38,712	27,772
<b>TOTAL CURRENT ASSETS</b>	<b>300,450</b>	<b>331,032</b>
<b>TOTAL ASSETS</b>	<b>611,487</b>	<b>640,395</b>
<b>CURRENT LIABILITIES</b>		
Accounts and bills payable	69,531	96,910
Other payables and accruals	48,991	34,952
Interest-bearing bank and other borrowings	258,065	245,621
Tax payable	1,703	1,351
<b>TOTAL CURRENT LIABILITIES</b>	<b>378,290</b>	<b>378,834</b>
<b>NET CURRENT LIABILITIES</b>	<b>(77,840)</b>	<b>(47,802)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>233,197</b>	<b>261,561</b>

**CONDENSED CONSOLIDATED BALANCE SHEET** *(continued)**As at 30 June 2007*

	<b>At 30 June</b> <b>2007</b> <b>(Unaudited)</b> <b>HK\$'000</b>	At 31 December 2006 (Audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	<u>21,281</u>	<u>5,352</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>21,281</u>	<u>5,352</u>
<b>TOTAL LIABILITIES</b>	<u>399,571</u>	<u>384,186</u>
<b>NET ASSETS</b>	<u>211,916</u>	<u>256,209</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	85,720	85,720
Reserves	<u>126,088</u>	<u>170,288</u>
<b>Equity attributable to equity holders of the Company</b>	<u>211,808</u>	<u>256,008</u>
<b>Minority interests</b>	<u>108</u>	<u>201</u>
<b>TOTAL EQUITY</b>	<u>211,916</u>	<u>256,209</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to equity holders of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2007	85,720	99,260	18,528	9,785	871	23,786	18,058	256,008	201	256,209
Translation differences on consolidation of overseas subsidiaries and on translating the financial statements of an overseas branch	-	-	-	3,266	-	-	-	3,266	(93)	3,173
Loss for the period	-	-	-	-	-	-	(47,466)	(47,466)	-	(47,466)
At 30 June 2007 (unaudited)	85,720	99,260	18,528	13,051	871	23,786	(29,408)	211,808	108	211,916
	Attributable to equity holders of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2006	85,720	99,260	18,528	722	3,986	22,779	5,299	236,294	1,261	237,555
Translation differences on consolidation of overseas subsidiaries and on translating the financial statements of an overseas branch	-	-	-	3,321	-	-	-	3,321	48	3,369
Profit for the period	-	-	-	-	-	-	10,525	10,525	416	10,941
At 30 June 2006 (unaudited)	85,720	99,260	18,528	4,043	3,986	22,779	15,824	250,140	1,725	251,865

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2007*

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash inflow from operating activities	<b>16,141</b>	87,953
Net cash outflow from investing activities	<b>(18,485)</b>	(28,588)
Net cash inflow/(outflow) from financing activities	<b>15,579</b>	(67,660)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	<b>13,235</b>	(8,295)
Cash and cash equivalents at beginning of period	<b>21,280</b>	32,367
Effect of foreign exchange rate change, net	<b>(4,709)</b>	2,331
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>29,806</b>	26,403
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents:		
Cash and cash equivalents	<b>38,712</b>	37,435
Bank overdrafts	<b>(8,906)</b>	(12,281)
Cash and cash equivalents attributable to a disposal group	<b>-</b>	1,249
	<hr/>	<hr/>
	<b>29,806</b>	26,403
	<hr/>	<hr/>





## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT

*For the six months ended 30 June 2007*

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and basis of preparation used in the preparation of these unaudited condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs and Interpretations (hereinafter collectively referred to as ("new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2007. The adoption of these new HKFRSs did not result in material impact to the Group's accounting policies and amounts reported for the current period and prior periods.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

### 2. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sales of home, garden and plastic decorative products.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT *(continued)*

For the six months ended 30 June 2007

### 3. SEGMENTAL INFORMATION

An analysis of the Group's turnover and results for the six months ended 30 June 2007 by geographical segments is as follows:

#### Geographical segments by location of customers

	Six months ended 30 June 2007 (Unaudited)				Consolidated HK\$'000
	United States of America HK\$'000	Europe HK\$'000	Asia Pacific HK\$'000	Others HK\$'000	
Revenue from external customers	181,184	67,874	36,382	140	285,580
Segment results	(21,633)	11,275	(8,038)	25	(18,371)
Unallocated operating income and expenses					(19,086)
Loss from operations					(37,457)
Finance costs					(10,287)
Loss before taxation					(47,744)
Taxation					185
Loss for the period					(47,559)
	Six months ended 30 June 2006 (Unaudited)				
	United States of America HK\$'000	Europe HK\$'000	Asia Pacific HK\$'000	Others HK\$'000	Consolidated HK\$'000
Revenue from external customers	484,200	205,059	45,643	185	735,087
Segment results	25,077	25,202	3,015	8	53,302
Unallocated operating income and expenses					(24,371)
Profit from operations					28,931
Finance costs					(16,566)
Profit before taxation					12,365
Taxation					(1,424)
Profit for the period					10,941

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT *(continued)*

For the six months ended 30 June 2007

### 4. (LOSS)/PROFIT FROM OPERATIONS

The Group's (loss)/profit from operations is arrived at after charging:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>218,184</b>	464,305
Depreciation	<b>16,555</b>	17,547
Amortisation of intangible assets	<b>4,297</b>	8,891
Amortisation of land lease payments	<b>860</b>	367
Provision for doubtful debts	<b>315</b>	431
Loss on disposal of property, plant and equipment	<b>230</b>	221

### 5. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans and other borrowings wholly repayable		
Within five years	<b>10,175</b>	16,266
Over five years	<b>-</b>	88
Interest on finance leases	<b>112</b>	212
Total finance costs	<b>10,287</b>	16,566

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT *(continued)*

For the six months ended 30 June 2007

### 6. TAXATION

No Hong Kong profits tax has been provided as the Group does not derive any assessable profit arising in Hong Kong during the period (six months ended 30 June 2006: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof for both periods.

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current period provision:		
Elsewhere	<b>951</b>	2,144
	<b>951</b>	2,144
Over provision in prior periods:		
Elsewhere	<b>(1,136)</b>	(556)
Deferred taxation:		
Elsewhere	<b>-</b>	(164)
	<b>(185)</b>	1,424

### 7. DIVIDEND

The Board resolved not to recommend the payment of an interim dividend for the period (six months ended 30 June 2006: Nil).

### 8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic (loss)/earnings per share is based on the net (loss)/profit for the period attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

Diluted (loss)/earnings per share for the six months ended 30 June 2007 and 2006 have not been disclosed as no diluting events existed during these periods.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT *(continued)*

For the six months ended 30 June 2007

### 8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY *(continued)*

The calculations of basic (loss)/earnings per share are based on:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>(Loss)/Profit</b>		
(Loss)/profit attributable to equity holders of the Company, used in the basic (loss)/earnings per share calculation	<b>(47,466)</b>	10,525
	<b>Number of shares</b>	
	<b>As at 30 June</b>	
	<b>2007</b>	2006
<b>Issued ordinary shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation	<b>857,196,000</b>	857,196,000

### 9. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 to 150 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivable are non-interest-bearing.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT *(continued)*

For the six months ended 30 June 2007

### 9. ACCOUNTS AND BILLS RECEIVABLE *(continued)*

An aged analysis of the accounts and bills receivable as at the balance sheet date, based on the payment due date and net of provisions, is as follows:

	<b>At 30 June 2007 (Unaudited) HK\$'000</b>	At 31 December 2006 (Audited) HK\$'000
Current	<b>65,218</b>	89,705
30 - 60 days	<b>730</b>	5,600
61 - 90 days	<b>5,161</b>	4,355
Over 90 days	<b>9,868</b>	13,717
	<b>80,977</b>	113,377

At 30 June 2007, accounts and bills receivable of the Group of approximately HK\$592,000 (31 December 2006: HK\$1,060,000) were pledged to the Group's bankers to secure banking facilities granted to the Group.

As at 30 June 2007, the Group has transferred certain bills of exchange amounting to HK\$8,772,000 (31 December 2006: HK\$6,144,000) to banks with recourse in exchange for cash. The proceeds from transferring the bills receivable of HK\$8,772,000 (31 December 2006: HK\$6,144,000) are accounted for as collateralised bank advances until the bills are collected or the Group makes good of any losses incurred by the banks.

### 10. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date, based on payment due date, is as follows:

	<b>At 30 June 2007 (Unaudited) HK\$'000</b>	At 31 December 2006 (Audited) HK\$'000
Current	<b>31,779</b>	57,131
30 - 60 days	<b>15,061</b>	20,035
61 - 90 days	<b>9,941</b>	9,272
Over 90 days	<b>12,750</b>	10,472
	<b>69,531</b>	96,910

The accounts payable are non-interest-bearing and are normally settled on 60-day terms.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT *(continued)*

For the six months ended 30 June 2007

### 11. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Short term employee benefits	<b>4,608</b>	5,483

### 12. LITIGATIONS

On 25 September 2006, Peaktop Investment Holdings (B.V.I.) Limited ("Peaktop BVI") which is a subsidiary of the Group and owns 51% equity interest in Peaktop Technologies (USA) Hong Kong Limited ("PTT (HK)", another subsidiary of the Group) filed a complaint to the court in the United States of America ("USA") against, among others, former directors of PTT (HK) ("the Former Directors") and a shareholder of Peaktop (HK) ("PTT (HK) Shareholder" which owns 49% equity interest in PTT (HK)), claiming for unfair competition, misappropriation of confidential and proprietary information that belongs to the Group, and breach of fiduciary duties (this litigation case is referred to as "Case 1"). Then on 27 September 2006, Peaktop BVI and PTT (HK) have instituted legal proceedings at the High Court of Hong Kong ("the High Court") against, among others, the Former Directors and PTT (HK) Shareholder, claiming for injunction from using confidential information of PTT (HK), delivery up of all documents and materials and damages.

In response to the actions taken by the Group, on 9 October 2006 PTT (HK) Shareholder filed a shareholder complaint on behalf of Peaktop Technologies (USA), Inc. (in which Peaktop BVI holds 19% equity interest and the said company is not a member of the Group) in the USA against, among others, the Company suing for breaching fiduciary duties and trade disparagement and others. The Company successfully entered an order staying this legal action in all respects pending resolution of Case 1. Also, on 22 February 2007, PTT (HK) Shareholder filed a petition to the High Court to wind up PTT (HK) (which is a major subsidiary as defined Rule 13.25(2) of the Listing Rules) under section 177(1)(f) of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) on just and equitable ground which is a common ground to make winding-up petition in case of disputes between shareholders. The winding-up proceedings are in the procedural stage. The details of the said winding-up proceedings are disclosed in the announcements of the Company dated 28 February 2007, 1 March 2007, 2 May 2007, 7 May 2007 and 20 August 2007. In addition, on 3 April 2007, PTT (HK) Shareholder filed another complaint in the USA against the Company and Peaktop BVI and others for trademark infringement and unfair competition.

The above proceedings are in the initial stage and the relevant Group members will continue the actions and strongly defend the proceedings. In the opinion of the directors, the above litigations are expected not to result in any significant outflow of economic benefits. Accordingly, no provision in respect thereof has been made in the financial statements of the Group.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT *(continued)*

For the six months ended 30 June 2007

### 13. POST BALANCE SHEET EVENTS

- (i) On 26 July 2007, a placing agreement was executed, pursuant to which the Company has agreed to place, through a placing agent and on a best effort basis, 63,000,000 new shares to independent investors at a price of HK\$0.86 per share.

The placing shares represent approximately 7.3% of the issued share capital of the Company and approximately 6.8% of the issued share capital of the Company as enlarged by the allotment and issue of the placing shares.

Net proceeds from the placing of approximately HK\$52,800,000, of which approximately HK\$25,000,000 has been applied by the Group for reducing its bank borrowings and the remaining balance has been applied by the Group for general working capital purpose.

- (ii) On 6 August 2007, the Group disposed of an available-for-sale equity investment located in Changzhou City, Jiangsu Province, PRC with a carrying value of approximately HK\$4,300,000 to an independent third party for a consideration of approximately HK\$10,500,000. The net gain on disposal and net cash generated from such disposal amounting to approximately HK\$6,200,000 and HK\$10,500,000 respectively will be used as general working capital of the Group. The expected completion date on disposal will be made by 15 October 2007.
- (iii) On 15 August 2007, a subsidiary of the Company had contracted to rebuild its certain factory premises located in Shenzhen City in the total sum of HK\$29,200,000 with an independent third party for expanding and increasing its productivity and efficiency of the existing factories.

### 14. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current period's presentation and accounting treatment.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the six months ended 30 June 2007, the Group's unaudited consolidated turnover was approximately HK\$285,600,000, representing a decrease of 61% when compared to the corresponding period last year. The major reasons for the decrease in total turnover were mainly attributable to the disposal of the German operations since August 2006, the loss of the major customer in US market and overseas subsidiaries recorded losses due to the decrease of orders received from overseas markets.

During the period under review, loss for the six months ended 30 June 2007 was approximately HK\$47,600,000 (six months ended 30 June 2006: profit of HK\$10,900,000) which was mainly due to the reasons similar to the decrease in total turnover and was also affected by the raw materials prices soared up and RMB appreciation.

During the period under review, the United States of America and Europe remained the Group's largest selling markets and accounted for 63% (six months ended 30 June 2006: 66%) and 24% (six months ended 30 June 2006: 28%) of the Group's total turnover respectively.

### Selling and Distribution, Administrative and Other Operating Expenses

During the period under review, total selling and distribution expenses of the Group was HK\$59,700,000 (six months ended 30 June 2006: HK\$179,200,000), representing 21% (six months ended 30 June 2006: 24%) of total turnover and a decrease of 67% when compared to the corresponding period last year.

During the period under review, total administrative expenses of the Group was HK\$47,700,000 (six months ended 30 June 2006: HK\$68,400,000), representing 17% (six months ended 30 June 2006: 9%) of total turnover and a decrease of 30% when compared to the corresponding period last year.

During the period under review, total other operating expenses of the Group was HK\$600,000 (six months ended 30 June 2006: HK\$700,000), representing 0.2% (six months ended 30 June 2006: 0.1%) of total turnover.

### Liquidity, Financial Resources and Finance Costs

The Group finances its operations with internally generated cash flows and banking facilities. As at 30 June 2007, the Group had aggregate available banking facilities of HK\$483,500,000 (31 December 2006: HK\$389,800,000), of which HK\$279,400,000 (31 December 2006: HK\$256,300,000) was utilized and subject to floating market rates. The Group's cash and bank balance at that date amounted to HK\$38,700,000 (31 December 2006: HK\$27,800,000), which was denominated in United States dollars, Hong Kong dollars and Renminbi. This together with unutilized banking facilities will enable the Group to fund its operational needs.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **Liquidity, Financial Resources and Finance Costs** *(continued)*

As at 30 June 2007, the Group's current ratio and quick ratio were 79% (31 December 2006: 87%) and 44% (31 December 2006: 47%) respectively. At that date, the Group's total borrowing, amounted to HK\$279,400,000 (31 December 2006: HK\$251,000,000), which included short-term borrowing and long-term borrowing of HK\$258,100,000 (31 December 2006: HK\$245,600,000) and HK\$21,300,000 (31 December 2006: HK\$5,400,000) respectively. As at 30 June 2007, the Group's gearing ratio, defined as total borrowing as percentage of total assets, was 46% (31 December 2006: 39%).

During the period under review, total finance costs incurred by the Group was HK\$10,300,000 (six months ended 30 June 2006: HK\$16,600,000). The Group continues to implement prudent financing policy in order to ensure that the Group will not be affected by short-term uncertainties.

### **Capital Expenditure**

The Group incurred a total capital expenditure in respect of acquisition of property, plant and equipment amounting to HK\$16,800,000 (six months ended 30 June 2006: HK\$17,100,000) for the six months ended 30 June 2007, which included HK\$2,000,000 (six months ended 30 June 2006: HK\$1,500,000) for expanding the manufacturing plants in the PRC, HK\$13,300,000 (six months ended 30 June 2006: HK\$5,800,000) and HK\$300,000 (six months ended 30 June 2006: HK\$2,400,000) for acquiring moulds; machinery and equipment in the PRC and Vietnam, respectively, and HK\$1,200,000 (six months ended 30 June 2006: HK\$7,400,000) for acquiring other fixed assets.

The Group incurred a total disposal of property, plant and equipment of HK\$4,100,000 (six months ended 30 June 2006: HK\$7,300,000) for the six months ended 30 June 2007, which included HK\$700,000 (six months ended 30 June 2006: HK\$2,700,000) on manufacturing plants in the PRC, HK\$ nil (six months ended 30 June 2006: HK\$300,000) and HK\$2,300,000 (six months ended 30 June 2006: HK\$2,200,000) for disposing moulds; machinery and equipment in the PRC and Vietnam, respectively, and HK\$1,100,000 (six months ended 30 June 2006: HK\$2,100,000) for disposal of other fixed assets.

### **Foreign Exchange Exposure**

During the period under review, the Group's major revenue was denominated in United States dollars and Hong Kong dollars, while banking facilities repayment and purchases were made essentially in the corresponding currencies and Renminbi, thus establishing a natural hedge. During the period 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.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **Impact of the Revaluation of Renminbi**

Most of the Group's sales are denominated in either United States dollars or Australian dollars while some of the Group's purchases are denominated in Renminbi. 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 the bank borrowing facilities and purchases denominated in Renminbi and also endeavor to incorporate the relevant exchange risk in all sales quotations.

### **Contingent Liabilities**

As at 30 June 2007, the Group had no contingent liability (31 December 2006: Nil).

### **Charges on Assets**

As at 30 June 2007, certain assets of the Group with aggregate carrying value of HK\$136,300,000 (31 December 2006: HK\$135,400,000) were pledged to secure loan facilities utilized by the Group.

### **Employees**

As at 30 June 2007, the Group had a total of 5,500 (six months ended 30 June 2006: 6,700) employees. Total staff cost incurred during the six months ended 30 June 2007 amounted to HK\$57,500,000 (six months ended 30 June 2006: HK\$83,800,000) excluding staff cost included in cost of sales and directors' remuneration. The Group offers a comprehensive remuneration and benefit package to its employees, and remuneration policies are reviewed by the management and remuneration committee on a regular basis.

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

### **Disposal of equity investment**

On 6 August 2007, the Group disposed of an available-for-sale equity investment located in Changzhou City, Jiangsu Province, PRC with a carrying value of approximately HK\$4,300,000 to an independent third party for a consideration of approximately HK\$10,500,000. The net gain on disposal and net cash generated from such disposal amounting to approximately HK\$6,200,000 and HK\$10,500,000 respectively will be used as general working capital of the Group. The expected completion date on disposal will be made by 15 October 2007.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **Business Review**

The Group has extensive experience in manufacturing and distributing garden decorative products, water gardening products and giftware products. The production facilities are located in the Southern part of the People's Republic of China and Vietnam. Most of the customers are well-known brand name in the United States of America and Europe markets.

During the period under review, the Group recorded a significant decrease in turnover as compared to the same period of last year. This is mainly due to one of major customers having shifted their orders to other vendors since September of last year and we also discontinued to consolidate the turnover of Heissner AG into the Group after the disposal has been completed. Consequently, the Group has recorded a significant decrease in gross profit margin which was mainly due to the losses of orders for certain high margin products. The management has taken all measures to liaise with major customers in order to compensate for the losses of orders and gross margin. According to the current situation, the management is of the opinion that both the turnover and gross profit margin cannot return to the previous years' levels within a short period of time.

Since the beginning of the year, the management has taken a lot of efforts in reducing the fixed operating costs through re-structuring process, such as, the centralization of production facilities in certain areas to minimize the production facilities in PRC and the disposal of loss-making subsidiaries. Meanwhile, the management has decided to dispose the non core investment and fixed assets for profit and to invite strategical partner in the candle business in Vietnam through merger process.

### **Business Prospects and Outlook**

By considering the latest market situation, the Group may not be able to obtain big amounts of orders in the second half of the current year. The management expects that the Group's business operating performance will not be able to recover within a short period of time. Consequently, the Group may not be able to record an operating profit in the current year.

There are lots of challenges and opportunities in the industry. Despite the market is getting more competitive, the management is still confident that the Group which has a positive net assets, is able to turnaround after all the corrective measures have been successfully implemented. With the continuous supports from customers, suppliers, shareholders, bankers, staffs, and other business associates, the management is confident in the re-structuring process to ultimately improving the performance of the Group.

## OTHER INFORMATION

### Directors' and Chief Executive's Interests in the Company

As at 30 June 2007, the interests or short positions of the directors (the "Directors") and chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

Long positions in the shares:

Name of Director	Notes	Number of ordinary shares held, capacity and nature of interest			Total	Approximate percentage of the Company's issued share capital [%]
		Personal	Family	Corporate		
Mr. LIN Chun Kuei		116,959,200	-	-	116,959,200	13.64
Ms. LIN HUANG Su Feng	1	-	116,959,200	-	116,959,200	13.64
Mr. LIN Chun Fu		33,690,800	-	-	33,690,800	3.93
Mr. Andree HALIM	2	42,086,000	-	102,300,000	144,386,000	16.84
Mr. NG Kin Nam	3	65,243,200	7,601,000	88,359,800	161,204,000	18.81

Notes:

- Ms. LIN HUANG Su Feng is the spouse of Mr. LIN Chun Kuei. Accordingly, she is deemed to be interested in 116,959,200 shares which are beneficially owned by Mr. LIN Chun Kuei.
- Tian Wan Pte. Ltd. is the beneficial owner of 102,300,000 shares. The entire issued share capital of Tian Wan Pte. Ltd. is beneficially owned as to 50% each by Mr. Andree HALIM and Mr. Daniel HALIM, the son of Mr. Andree HALIM. Accordingly, both Mr. Andree HALIM and Mr. Daniel HALIM are deemed to be interested in 102,300,000 shares beneficially owned by Tian Wan Pte. Ltd.
- Jade Investment Limited is the beneficial owner of 88,359,800 shares. The entire issued share capital of Jade Investment Limited is beneficially owned as to 50% each by Mr. NG Kin Nam and Ms. Jocelyn O. Angeleslao, the spouse of Mr. NG Kin Nam. Accordingly, Mr. NG Kin Nam is deemed to be interested in the 88,359,800 shares beneficially owned by Jade Investment Limited. Mr. NG Kin Nam is also deemed to be interested in the 7,601,000 shares beneficially owned by Ms. Jocelyn O. Angeleslao.



## **OTHER INFORMATION** *(continued)*

### **Directors' and Chief Executive's Interests in the Company** *(continued)*

In addition to the above, certain directors hold shares in certain subsidiaries of the Company, in a non-beneficial capacity, solely for the purpose of complying with minimum company membership requirements.

Save as disclosed above, as at 30 June 2007, so far as is known to, or can be ascertained after reasonable enquiry by the Directors, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); and (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

### **Directors' Rights to Acquire Shares or Debentures**

Apart from as disclosed under the headings "Directors' and Chief Executive's Interests in the Company" and "Share Option Scheme", at no time during the six months ended 30 June 2007 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### **Share Option Scheme**

The Company adopts a share option scheme which complies with the requirements of Chapter 17 of the Listing Rules.

During the six months ended 30 June 2007, no share options were granted or exercised under the share option scheme.

## OTHER INFORMATION *(continued)*

### Substantial Shareholders

So far as is known to the Directors and the chief executive of the Company, the following person (not being Directors and chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares (including any interests in option in respect of such capital) of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(i) Long positions in the shares:

Name	Notes	Capacity and nature of interest	Number of ordinary Shares held	Approximate percentage of the Company's issued share capital (%)
Ms. Jocelyn O. Angeleslao	1	Through a controlled corporation	88,359,800	10.31
	1	Directly beneficially owned	7,601,000	0.89
	1	Through the spouse	65,243,200	7.61
			161,204,000	18.81
Mr. Daniel HALIM	2	Through a controlled corporation	102,300,000	11.93
Tian Wan Pte. Ltd.	2	Directly beneficially owned	102,300,000	11.93
Jade Investment Limited	3	Directly beneficially owned	88,359,800	10.31

Notes:

- Ms. Jocelyn O. Angeleslao is the spouse of Mr. NG Kin Nam, an Executive Director, and the beneficial owner of 50% of the existing issued share capital of Jade Investment Limited. Accordingly, she is deemed to be interested in the 65,243,200 shares beneficially owned by Mr. NG Kin Nam and the 88,359,800 shares beneficially owned by Jade Investment Limited. She is also the beneficial owner of 7,601,000 shares. The interests of Mr. NG Kin Nam are disclosed under the heading "Directors' and Chief Executive's Interests in the Company".
- Tian Wan Pte. Ltd. is the beneficial owner of 102,300,000 shares. The entire issued share capital of Tian Wan Pte. Ltd. is beneficially owned as to 50% each by Mr. Andree HALIM (the Director of the Company) and Mr. Daniel HALIM, the son of Mr. Andree HALIM. Accordingly, both Mr. Andree HALIM and Mr. Daniel HALIM are deemed to be interested in 102,300,000 shares beneficially owned by Tian Wan Pte. Ltd..
- Jade Investment Limited is the beneficial owner of 88,359,800 shares. The entire issued share capital of Jade Investment Limited is beneficially owned as to 50% each by Mr. NG Kin Nam (the Director of the Company) and Ms. Jocelyn O. Angeleslao, the spouse of Mr. NG Kin Nam.

## OTHER INFORMATION *(continued)*

### Substantial Shareholders *(continued)*

(ii) Long positions in the shares of subsidiaries of the Company:

Name of subsidiary	Name of substantial shareholder	Percentage of shareholding (%)
Peaktop Technologies (USA) Hong Kong Limited	Geoglobal Partners LLC	49
Waterwerks Pty. Ltd.	Infiniti Marketing Group Pty. Ltd.	10

As at 30 June 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interest in shares disclosed above in respect of the Directors and chief executive of the Company, the Company has not been notified of any other interests representing 5 percent or more of the Company's issued share capital.

Save as disclosed above, as at 30 June 2007, so far as is known to the Directors and chief executive of the Company were not aware of any other person (other than the Directors and chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares (including any interests in option in respect of such capital) of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

### Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2007.

### Corporate Governance

The Company has complied with the code provisions of the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2007, with deviations from code provisions A.2.1 and A.4.1 of the CG Code in respect of the separates roles of the Chairman and Chief Executive Officer ("CEO") and the appointment of Independent Non-executive Directors for a specific terms.



## OTHER INFORMATION *(continued)*

### **Corporate Governance** *(continued)*

Code A.2.1 of the CG Code provides that the roles of Chairman and CEO should be separate and should not be performed by the same individual. The Chairman and CEO of the Company is Mr. Lin Chun Kuei. He is the one of the founders of the Group and is primarily responsible for leadership of the Board, ensuring the effectiveness on all aspects of its role and setting its agenda, whereas clearly established executive responsibilities for running of the business operations of the Group lie with different designated senior executives. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a professional and independent non-executive element on the Board and a clear division of responsibility for the running of the business of the Group.

Code A.4.1 of the CG Code provides that Non-executive directors should be appointed for a specific term, subject to re-election. Currently, the three Independent Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Bye-laws of the Company.

On 12 July 2007, a profit warning statement was issued to the general public that the Group expected a significant loss would record for the six months ended 30 June 2007 due to the loss of a major customer and overseas subsidiaries recorded losses due to decrease of orders received from overseas markets.

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

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2007.

### **Audit Committee**

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2007.

### **Appreciation**

The Board would like to express its sincere appreciation to the bankers, suppliers, customers, shareholders and staff for their continuing support to the Group.

On behalf of the Board  
**LIN Chun Kuei**  
*Chairman*

Hong Kong, 11 September 2007