



Interim Report **2008**

PEAKTOP
GROUP

Peaktop International Holdings Limited

(incorporated in Bermuda with limited liability)

Stock Code: 925

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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

Independent Non-executive
Directors

Mr. GOH Gen Cheung

Mr. MA Chiu Cheung, Andrew

Mr. NG Tang Fai, Ernesto

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. JAN Wing Fu, Barry

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

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)

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

The Board of Directors (the “Board”) of Peaktop International Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim report of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008, together with the unaudited comparative figures for the corresponding period in 2007:

		Six months ended 30 June	
		2008	2007
	<i>Note</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
REVENUE	3	187,696	285,580
COST OF SALES		(163,113)	(218,184)
GROSS PROFIT		24,583	67,396
Other income and gains		20,138	3,124
Selling and distribution costs		(48,335)	(59,728)
Administrative expenses		(37,179)	(47,704)
Other operating income/(expenses)		26,771	(545)
LOSS FROM OPERATIONS	4	(14,022)	(37,457)
Finance costs	5	(7,486)	(10,287)
LOSS BEFORE TAXATION		(21,508)	(47,744)
Taxation	6	2,674	185
LOSS FOR THE PERIOD		(18,834)	(47,559)
Attributable to:			
Equity holders of the Company		(18,834)	(47,466)
Minority interests		-	(93)
		(18,834)	(47,559)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8		
Basic		(HK1.9 cents)	(HK5.5 cents)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	At 30 June 2008 (Unaudited) HK\$'000	At 31 December 2007 (Audited) HK\$'000
<i>Note</i>		
NON-CURRENT ASSETS		
Property, plant and equipment	179,588	164,248
Investment properties	12,640	12,640
Prepaid land lease payments	63,697	61,388
Other intangible assets	888	927
Available-for-sale equity investments	8,420	8,420
Financial assets at fair value through profit and loss	23,471	23,471
	<hr/>	<hr/>
TOTAL NON-CURRENT ASSETS	288,704	271,094
	<hr/>	<hr/>
CURRENT ASSETS		
Trading securities	902	942
Inventories	34,766	77,353
Accounts and bills receivable	71,093	63,052
Prepayments, deposits and other receivables	33,063	61,059
Pledged deposits	1,135	1,065
Cash and cash equivalents	17,045	41,188
	<hr/>	<hr/>
	158,004	244,659
Non-current assets held for sale	–	22,933
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	158,004	267,592
	<hr/>	<hr/>
TOTAL ASSETS	446,708	538,686
	<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Note	At 30 June 2008 (Unaudited) HK\$'000	At 31 December 2007 (Audited) HK\$'000
CURRENT LIABILITIES			
Accounts and bills payable	10	48,326	78,315
Derivative financial instruments		–	2,113
Other payables and accruals		140,552	64,578
Bank loans and overdrafts		55,495	209,757
Other loan, unsecured		–	9,852
Obligations under finance lease		–	320
Tax payable		889	2,377
TOTAL CURRENT LIABILITIES		245,262	367,312
NET CURRENT LIABILITIES		(87,258)	(99,720)
TOTAL ASSETS LESS CURRENT LIABILITIES		201,446	171,374
NON-CURRENT LIABILITIES			
Bank loans		17,065	14,788
Deposit held for sale of properties interests		39,725	–
Deferred tax liabilities		633	633
TOTAL NON-CURRENT LIABILITIES		57,423	15,421
TOTAL LIABILITIES		302,685	382,733
NET ASSETS		144,023	155,953
CAPITAL AND RESERVES			
Share capital		99,920	99,920
Reserves		44,103	56,033
Equity attributable to equity holders of the Company		144,023	155,953
TOTAL EQUITY		144,023	155,953

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	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	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2008	99,920	172,582	18,528	16,046	871	23,786	(175,780)	155,953	-	155,953
Translation differences on consolidation of overseas subsidiaries and on translating the financial statements of an overseas branch	-	-	-	6,212	-	-	-	6,212	-	6,212
Disposal of subsidiaries	-	-	-	692	-	-	-	692	-	692
Loss for the period	-	-	-	-	-	-	(18,834)	(18,834)	-	(18,834)
At 30 June 2008 (unaudited)	<u>99,920</u>	<u>172,582</u>	<u>18,528</u>	<u>22,950</u>	<u>871</u>	<u>23,786</u>	<u>(194,614)</u>	<u>144,023</u>	<u>-</u>	<u>144,023</u>

	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)	<u>85,720</u>	<u>99,260</u>	<u>18,528</u>	<u>13,051</u>	<u>871</u>	<u>23,786</u>	<u>(29,408)</u>	<u>211,808</u>	<u>108</u>	<u>211,916</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	88,638	16,141
Net cash inflow/(outflow) from investing activities	8,891	(18,485)
Net cash (outflow)/inflow from financing activities	(120,743)	15,579
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(23,214)	13,235
Cash and cash equivalents at beginning of period	35,432	21,280
Effect of foreign exchange rate change, net	2,971	(4,709)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	15,189	29,806
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents:		
Cash and cash equivalents	17,045	38,712
Bank overdrafts	(1,856)	(8,906)
	<hr/>	<hr/>
	15,189	29,806
	<hr/>	<hr/>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT

For the six months ended 30 June 2008

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 2007.

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 2008. 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

For the six months ended 30 June 2008

3. SEGMENTAL INFORMATION

An analysis of the Group's turnover and results for the six months ended 30 June 2008 by geographical segments is as follows:

GEOGRAPHICAL SEGMENTS BY LOCATION OF CUSTOMERS

	Six months ended 30 June 2008 (Unaudited)				Consolidated HK\$'000
	United States of America HK\$'000	Europe HK\$'000	Asia Pacific HK\$'000	Others HK\$'000	
Revenue from external customers	156,103	6,032	25,559	2	187,696
Segment results	(37,669)	(2,477)	15,586	-	(24,560)
Unallocated operating income and expenses					10,538
Loss from operations					(14,022)
Finance costs					(7,486)
Loss before taxation					(21,508)
Taxation					2,674
Loss for the period					(18,834)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT

For the six months ended 30 June 2008

	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)

4. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging:

	Six months ended 30 June 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Cost of inventories sold	163,113	218,184
Depreciation	11,247	16,555
Amortisation of intangible assets	115	4,297
Amortisation of land lease payments	661	860
Provision for doubtful debts	1,149	315
Loss on disposal of property, plant and equipment	2,764	230

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT

For the six months ended 30 June 2008

5. FINANCE COSTS

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and other borrowings wholly repayable		
Within five years	7,308	10,175
Over five years	178	–
Interest on finance leases	–	112
	<hr/>	<hr/>
Total finance costs	7,486	10,287
	<hr/>	<hr/>

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 2007: 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.

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current period provision:		
Elsewhere	957	951
	<hr/>	<hr/>
	957	951
Over provision in prior periods:		
Elsewhere	(494)	(1,136)
	<hr/>	<hr/>
Deferred taxation:		
Elsewhere	(3,137)	–
	<hr/>	<hr/>
	(2,674)	(185)
	<hr/>	<hr/>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT

For the six months ended 30 June 2008

7. DIVIDEND

The Board resolved not to recommend the payment of an interim dividend for the period (six months ended 30 June 2007: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the net loss 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 per share for the six months ended 30 June 2008 and 2007 have not been disclosed as no diluting events existed during these periods.

The calculations of basic loss per share are based on:

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss		
Loss attributable to equity holders of the Company, used in the basic loss per share calculation	(18,834)	(47,466)
	<hr/>	<hr/>
	Number of shares	
	As at 30 June	
	2008	2007
Issued ordinary shares		
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation	999,196,000	857,196,000
	<hr/>	<hr/>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT

For the six months ended 30 June 2008

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 90 to 180 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.

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:

	At 30 June 2008 (Unaudited) HK\$'000	At 31 December 2007 (Audited) HK\$'000
Current	56,587	56,094
30 – 60 days	6,571	1,714
61 – 90 days	3,902	709
Over 90 days	4,033	4,535
	71,093	63,052

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:

	At 30 June 2008 (Unaudited) HK\$'000	At 31 December 2007 (Audited) HK\$'000
Current	23,495	37,707
30 – 60 days	3,970	17,675
61 – 90 days	11,826	10,660
Over 90 days	9,035	12,273
	48,326	78,315

The accounts payable are non-interest-bearing and are normally settled within one year or payable on demand.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM REPORT

For the six months ended 30 June 2008

11. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	4,150	4,608

12. POST BALANCE SHEET EVENTS

On 11 June 2008, the Company's substantial shareholders (the "Vendors") and the offeror entered into the conditional sale and purchase agreement (the "Agreement"), pursuant to which the offeror conditionally agreed to acquire from the Vendors the sale shares for an aggregate consideration of HK\$150,724,900 (as amended by the supplemental agreement signed on 12 July 2008). On 21 August 2008, the Company had been informed by the offeror that the resolution relating to the offers was not approved by the shareholders of the offeror at the special general meeting convened on the same day. The approval of the shareholders of the offeror of the Agreement and the transactions contemplated thereunder was one of the conditions precedent to the completion of the Agreement. Accordingly, the Agreement had ceased and terminated. As the making of the offers was conditional on fulfillment of the conditions precedent under the Agreement, the offers would not be made by the offeror.

On 19 May 2008, the Company and the placing agent entered into the placing agreement, pursuant to which the placing agent agreed to place, on a best effort basis, to independent investors up to in the aggregate principal amount of HK\$75,440,000 convertible bonds bearing interest of 12% per annum attached with rights of conversion to a maximum of 184,000,000 conversion shares at initial conversion price of HK\$0.41 per share. On 1 September 2008, the fourth supplemental agreement on the placing of convertible bonds lapsed (as amended by the supplemental agreement signed on 10 June 2008 and the second, third and fourth supplemental agreements signed on 30 June 2008, 14 July 2008 and 31 July 2008 respectively) and the completion of the placing agreement would not be proceeded.

13. 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 2008, the Group's unaudited consolidated turnover was approximately HK\$187,700,000, representing a decrease of 34% when compared to the same period last year. The major reason for the decrease in total turnover in the first half of 2008 was the downturns of the real estate industry and stock markets in the USA and the world. The demands of the Group's products have been affected to decrease and this was the business trend since the beginning of 2007.

Loss for the six months ended 30 June 2008 was approximately HK\$18,800,000 (six months ended 30 June 2007: HK\$47,600,000). The improvement was mainly due to a non-operational gain recorded on the disposal of Peaktop (Vietnam) Limited during the period under review.

During the period under review, the United States of America and Asia Pacific were the Group's largest selling markets and accounted for 83% (six months ended 30 June 2007: 63%) and 14% (six months ended 30 June 2007: 13%) of the Group's total turnover respectively. Asia Pacific replaced Europe as the second largest selling market of the Group in the first half of 2008.

SELLING AND DISTRIBUTION, ADMINISTRATIVE AND OTHER OPERATING EXPENSES

During the period under review, total selling and distribution expenses of the Group was HK\$48,300,000 (six months ended 30 June 2007: HK\$59,700,000), representing 26% (six months ended 30 June 2007: 21%) of total turnover and a decrease of 19% when compared to the corresponding period last year.

During the period under review, total administrative expenses of the Group was HK\$37,200,000 (six months ended 30 June 2007: HK\$47,700,000), representing 20% (six months ended 30 June 2007: 17%) of total turnover and a decrease of 22% when compared to the corresponding period last year.

During the period under review, other operating income of the Group was HK\$26,800,000 (six months ended 30 June 2007: other operating expenses of HK\$500,000), representing 14% (six months ended 30 June 2007: 0.2%) of total turnover. The other operating income mainly composed of the gains recognized on disposal of Peaktop (Vietnam) Limited as stated in the Financial Review above.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCE COSTS

The Group finances its operations with internally generated cash flows and banking facilities. As at 30 June 2008, the Group had aggregate available banking facilities of HK\$206,300,000 (31 December 2007: HK\$379,800,000), of which HK\$72,600,000 (31 December 2007: HK\$224,500,000) was utilized and subject to floating market rates. The Group's cash and bank balance at that date amounted to HK\$17,000,000 (31 December 2007: HK\$41,200,000), 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

As at 30 June 2008, the Group's current ratio and quick ratio were 64% (31 December 2007: 67%) and 50% (31 December 2007: 46%) respectively. At that date, the Group's total borrowing, amounted to HK\$72,600,000 (31 December 2007: HK\$234,700,000), which included short-term borrowing and long-term borrowing of HK\$55,500,000 (31 December 2007: HK\$219,900,000) and HK\$17,100,000 (31 December 2007: HK\$14,800,000) respectively. As at 30 June 2008, the Group's gearing ratio, defined as total borrowing as percentage of total assets, was 16% (31 December 2007: 44%).

During the period under review, total finance costs incurred by the Group were HK\$7,500,000 (six months ended 30 June 2007: HK\$10,300,000). The decrease of total finance costs was in line with the decrease of the total borrowing of the Group and the increase of Shareholders' loan. The Group will continue to implement prudent financing policy in order to ensure that the Group will not be affected by short-term uncertainties.

SHAREHOLDERS' LOANS

During the period under review, certain directors and substantial shareholders of the Company had advanced totaling HK\$50,000,000 to the Company for general working capital purpose.

CAPITAL EXPENDITURE

The Group incurred a total capital expenditure in respect of acquisition of property, plant and equipment amounting to HK\$30,200,000 (six months ended 30 June 2007: HK\$16,800,000) for the six months ended 30 June 2008, which included HK\$20,900,000 on construction in progress (six months ended 30 June 2007: HK\$Nil), HK\$8,200,000 (six months ended 30 June 2007: HK\$13,300,000) for acquiring moulds, HK\$1,000,000 (six months ended 30 June 2007: HK\$300,000) for addition of machinery and equipment in the PRC and Vietnam, and HK\$100,000 (six months ended 30 June 2007: HK\$3,200,000) for acquiring other fixed assets.

FOREIGN EXCHANGE EXPOSURE

During the period under review, the Group's major revenue was denominated in United States 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.

IMPACT OF THE REVALUATION OF RENMINBI

All 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 incorporates the exchange risk in all quotations, and participating the appreciation of RMB in the quotation for the future new orders.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 30 June 2008, the Group had no significant contingent liability (31 December 2007: Nil).

CHARGES ON ASSETS

As at 30 June 2008, certain assets of the Group with aggregate carrying value of HK\$122,000,000 (31 December 2007: HK\$151,200,000) were pledged to secure loan facilities utilized by the Group.

EMPLOYEES

As at 30 June 2008, the Group had a total of 1,700 (six months ended 30 June 2007: 5,500) employees. Total staff cost incurred during the six months ended 30 June 2008 amounted to HK\$37,200,000 (six months ended 30 June 2007: HK\$57,500,000) 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 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. During the six months ended 30 June 2008, no option were granted or exercised under the share option scheme.

DISPOSAL OF THE ENTIRE SHARE CAPITAL OF PEAKTOP (VIETNAM) LIMITED

On 30 April 2008, the Group entered into an agreement with an independent third party to dispose the entire share capital of Peaktop (Vietnam) Limited for a consideration of USD2,800,000 (equivalent to HK\$21,800,000).

DISPOSAL OF THE ENTIRE SHARE CAPITAL OF PEAKTOP TECHNOLOGIES LIMITED

On 1 May 2008, the Group entered into an agreement with an independent third party to dispose the entire share capital of Peaktop Technologies Limited for a consideration of RMB202,500,000 (equivalent to HK\$225,800,000).

PLACING OF CONVERTIBLE BONDS

On 19 May 2008, the Company entered into a placing agreement with a placing agent whereby the placing agent agreed to place, on a best effort basis, to independent investors up to in the aggregate principal amount of HK\$75,400,000 convertible bonds. The Company and the placing agent subsequently entered into four supplemental agreements, pursuant which the long-stop date had been further extended from 30 June 2008 to 1 September 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the gross profit ratio was 13% for the six months ended 30 June 2008 and downed from 24% in the same period last year. The drop of gross profit was mainly due to the charging of product development costs for HK\$10,300,000 in the consolidated profit & loss accounts in the first half of 2008. The other reasons on the falling of gross profit were the increasing prices in worldwide crude oil, raw materials and the PRC labor cost. The management expected that all the above elements will continuously affect the Group, and therefore, the management has been closely monitoring the cost trend in order to maintain the Group's competitive capability.

BUSINESS PROSPECTS AND OUTLOOK

The Group should concentrate on its main business of manufacturing and trading water gardening products for the second half of 2008, the year of 2009 and onwards, based on its very well established product design and development abilities as well as its very strong relationship with the buyers. However, the Group has to change its over-all marketing strategy since 2007 to focus on developing those higher margin products with different raw materials and to select higher margin business partners from the long relation buyers' list and also approach those new players in the market places. USA is the major market since the Group had started its operation in 1992. The water gardening business is mainly for improving life style and home decoration. The most of their population in USA is staying in houses with own garden for their out-door activities, therefore, the prospect for its future business is still strong. No matter, the recently economic down turn in USA has affected a bit to be slow and conservative as compared the business few years ago.

To stay competitive in the industry from supply side from China, the Group is not only to further reduce the production costs through the restructure process in every aspect to cut down labor costs, manufacturing overhead and financial expenses, but also has to increase the portion of trading business gradually by out-sourcing products from the related production facilities outside of Guangdong province where local government has less encouraged the labor-intensive industries. The increased trading business shall substitute the turnover of own production and also to improve the profit margin and stay competitive. Besides, using poly-resin as its main raw materials for products, the Group also focus in developing products with other raw materials, such as ceramic, metal, nature rocks and woods through out-sourcing activities.

In general, the buyers and customers in the market places have taken past two years to accept gradually the prices adjustment due from the inflation of raw materials and labor costs and the appreciation of RMB in China. Meanwhile, only those companies which could compete, still stay within the industry after it was forced to have its self-restructure since two years ago.

Finally, the Group is still looking for the potential investor in the market in order to bring in new business units which will compensate the loss of turnover and the profitability of the Group.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE COMPANY

As at 30 June 2008, 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 in the shares			Total	Approximate
		Personal	Family	Corporate		percentage of the Company's issued share capital (%)
Mr. LIN Chun Kuei		135,059,200	–	–	135,059,200	13.52
Mr. LIN Chun Fu		33,690,800	–	–	33,690,800	3.37
Mr. Andree HALIM	(i)	42,086,000	–	127,822,000	169,908,000	17.00
Mr. NG Kin Nam	(ii)	60,123,200	6,107,000	89,291,800	155,522,000	15.56

Notes:

- (i) Tian Wan Pte. Ltd. is the beneficial owner of 127,822,000 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, Mr. Andree HALIM is deemed to be interested in 127,822,000 shares beneficially owned by Tian Wan Pte. Ltd.
- (ii) Jade Investment Limited is the beneficial owner of 89,291,800 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 89,291,800 Shares beneficially owned by Jade Investment Limited. Mr. NG Kin Nam is also deemed to be interested in the 6,107,000 shares beneficially owned by Ms. Jocelyn O. Angeleslao.

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 2008, 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.

OTHER INFORMATION

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 2008 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 2008, no share options were granted or exercised under the share option scheme.

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 of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 and Part XV of the SFO, or who is, 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	(i)	Through a controlled corporation	89,291,800	8.94
	(i)	Directly beneficially owned	6,107,000	0.61
	(i)	Through the spouse	60,123,200	6.01
			155,522,000	15.56
Jade Investment Limited	(i)	Directly beneficially owned	89,291,800	8.94
Tian Wan Pte. Ltd.	(ii)	Directly beneficially owned	127,822,000	12.79
Mr. Daniel HALIM	(ii)	Through a controlled corporation	127,822,000	12.79
Mrs. LIN HUANG Su Feng(iii)		Through the spouse	135,059,200	13.52

OTHER INFORMATION

Notes:

- (i) 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 60,123,200 shares beneficially owned by Mr. NG Kin Nam and the 89,291,800 shares beneficially owned by Jade Investment Limited. She is also the beneficial owner of 6,107,000 shares.
- (ii) Tian Wan Pte. Ltd. is the beneficial owner of 127,822,000 shares. The entire issued share capital of Tian Wan Pte. Ltd. is beneficially owned as to 50% each by Mr. Andree HALIM (one of the Director of the Company) and Mr. Daniel HALIM, the son of Mr. Andree HALIM.
- (iii) Mrs. LIN HUANG Su Feng is the spouse of Mr. LIN Chun Kuei (one of the Directors of the Company). Accordingly, she is deemed to be interested in 135,059,200 shares which are beneficially owned by Mr. LIN Chun Kuei.
- (iv) 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 2008, 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% or more of the Company's issued share capital.

Save as disclosed above, as at 30 June 2008, 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 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 is, 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 2008.

OTHER INFORMATION

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 2008, with deviations from code provisions A.2.1 and A.4.1 of the CG Code in respect of the separate roles of the Chairman and Chief Executive Officer (“CEO”) and the appointment of Independent Non-executive Directors for a specific terms.

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 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, two of 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.

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 2008.

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 2008.

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, 22 September 2008