THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Perfectech International Holdings Limited (the "Company"), you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

PERFECTECH INTERNATIONAL HOLDINGS LIMITED
威發國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 0765)

DISCLOSEABLE AND CONNECTED TRANSACTION

ACQUISITION OF 41% EQUITY INTEREST IN PERFECTECH INTERNATIONAL MANUFACTURING LIMITED AND GRANTING OF CORPORATE GUARANTEES IN RESPECT OF PAYMENT OF CONSIDERATION TO CONNECTED PERSONS

Joint financial advisers to the Company

INCU Corporate Finance Limited **Phoenix Capital Asia Limited**

Independent financial adviser to the Independent Board Committee of the Company

Menlo Capital Limited

A letter from the board of directors of the Company is set out on pages 5 to 16 of this circular. A letter from the Independent Board Committee (as defined herein) is set out on page 17 of this circular. A letter from Menlo Capital Limited containing its advice to the Independent Board Committee and the independent Shareholders (as defined herein) is set out on pages 18 to 31 of this circular.

10 June 2005

* *for identification purpose only*

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"2003 Acquisition"	the acquisition by the Purchaser of 59% equity interest in PIML pursuant to the sale and purchase agreement dated 9 December 2003 entered into amongst, First View, Glennie, Dynamic Champion Inc., as vendors, the Purchaser, Mr. Lee, Mr. Lau, as warrantors, and Dream Creation Limited as the holding company of Rich Success Profits Limited (now known as PIML) prior to reorganization, whose ultimate beneficial owners are also First View, Glennie and Dynamic Champion Inc.
"Acquisition"	the acquisition by the Purchaser of the Sale Shares subject to and upon the terms and conditions of the Sale and Purchase Agreements dated 22 April 2005, including but not limited to the granting of Corporate Guarantees
"Announcement"	the announcement of the Company dated 6 May 2005 and published on 9 May 2005 in relation to the Sale and Purchase Agreements
"Annual Report 2004"	the Annual Report of the Company for the year ended 31 December 2004 issued on 18 April 2005
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	Perfectech International Holdings Limited, a company incorporated in Bermuda and the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition pursuant to the Sale and Purchase Agreements
"Consideration"	the aggregate consideration in the sum of HK$17,083,000 payable by the Purchaser to the Vendors for the sale and purchase of the Sale Shares
"Corporate Guarantees"	the corporate guarantees granted by the Company to the Vendors in respect of the Post Completion Payments pursuant to the Acquisition
"Directors"	directors of the Company
"F&G Sale Shares"	an aggregate of 884,520 Sale Shares, representing 36.0% of the issued share capital of PIML

"First View"	First View Holdings Limited, a company incorporated in the British Virgin Islands, is 100% beneficially owned by Mr. Lau and was beneficially interested in 22.5% of the issued share capital of PIML immediately prior to Completion and is a substantial shareholder of PIML. Other than being a substantial shareholder of PIML, to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, First View and its ultimate beneficial owner, Mr. Lau, are third parties independent of and not connected with the Company and its connected person (as defined in the Listing Rules).
"First View and Glennie Agreement"	the agreement for the sale and purchase of the F&G Sale Shares entered into between the Purchaser, First View and Glennie on 22 April 2005
"GV Sale Shares"	an aggregate of 122,850 Sale Shares, representing 5.0% of the issued share capital of PIML
"Glennie"	Glennie Profits Limited, a company incorporated in the British Virgin Islands, is 100% beneficially owned by Mr. Lee and was beneficially interested in 13.5% of the issued share capital of PIML immediately prior to Completion and is a substantial shareholder of PIML. Upon Completion, Mr. Lee will resign as a director of PIML. Mr. Lee and his associates including Glennie shall continue to be connected persons of the Company under the Listing Rules in view of his past directorship of PIML within the preceding twelve months
"Great Venture"	Great Venture Co., Ltd., a company incorporated in the Republic of Mauritius, is 100% beneficially owned by Mr. Chui Ming Kay and was beneficially interested in 5% of the issued share capital of PIML immediately prior to Completion. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Great Venture and its ultimate beneficial owner, Mr. Chui Ming Kay, other than its 5% shareholding in PIML, are third parties independent of and not connected with the Company and its connected person (as defined in the Listing Rules)
"Great Venture Agreement"	the agreement for the sale and purchase of the GV Sale Shares entered into between the Purchaser and Great Venture on 22 April 2005

"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of Hong Kong of the People's Republic of China
"Independent Board Committee"	an independent board committee of the Company, comprising Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Ng Siu Yu, Larry, appointed by the Board to advise the independent Shareholders as to the fairness and reasonableness of the Sale and Purchase Agreements and the granting of Corporate Guarantees
"Latest Practicable Date"	7 June 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Menlo"	Menlo Capital Limited, a licensed corporation under the SFO permitted to engage in type 6 regulated activities (advising on corporate finance, as defined under the SFO), which is the independent financial adviser to the Independent Board Committee and the independent Shareholders
"Mime"	Mime Limited, a company incorporated in Hong Kong and a substantial Shareholder which is interested in 101,757,630 Shares, representing approximately 33.21% of the entire issued share capital of the Company and is controlled by Mr. Poon
"Mr. Lau"	Mr. Lau Kim Hung, Jack, 100% beneficial owner of First View
"Mr. Lee"	Mr. Lee Chun Kit, Richard, 100% beneficial owner of Glennie
"Mr. Leung"	Mr. Leung Ying Wai, Charles, an executive Director and Deputy Managing Director of the Company
"Mr. Poon"	Mr. Poon Siu Chung, an executive Director, the Chairman, Managing Director and a substantial Shareholder of the Company who is beneficially interested in 116,741,630 Shares, comprising 101,757,630 Shares owned by Mime and a direct interest of 14,984,000 Shares, and representing approximately 38.10% of the entire issued share capital of the Company

"Nielsen"	Nielsen Limited, a company incorporated in Hong Kong, which is 100% controlled by Mr. Leung and his associates and a substantial Shareholder which is interested in 63,097,200 Shares, representing approximately 20.59% of the entire issued share capital of the Company
"Percentage Ratios"	has the meaning ascribed to it under the Listing Rules
"PIML"	Perfectech International Manufacturing Limited, a limited liability company incorporated on 18 May 2001 in the British Virgin Islands
"Post Completion Payments"	the deferred payment of Consideration to be made by the Purchaser to the respective Vendors on or before 31 July 2005 under the Sale and Purchase Agreements
"Purchaser"	Freshwater Trading Limited, a company incorporated in the British Virgin Islands and is an indirect wholly owned subsidiary of the Company
"Sale and Purchase Agreements"	the First View and Glennie Agreement and the Great Venture Agreement
"Sale Shares"	F&G Sale Shares and GV Sale Shares, being an aggregate of 1,007,370 shares and representing 41% of the issued share capital of PIML, and "Sale Share" shall be construed accordingly
"SFO"	Securities and Futures Ordinance, Cap.571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendors"	First View, Glennie and Great Venture
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

PERFECTECH INTERNATIONAL HOLDINGS LIMITED
威發國際集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 0765)

Executive Directors:
Mr. Poon Siu Chung *(Chairman and Managing Director)*
Mr. Leung Ying Wai, Charles *(Deputy Managing Director)*
Mr. Ip Siu On
Mr. Tsui Yan Lee, Benjamin

Non-executive Director:
Mr. Tong Wui Tung

Independent non-executive Directors:
Mr. Ng Siu Yu, Larry
Mr. Lam Yat Cheong
Mr. Yip Chi Hung

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head office and principal place of business in Hong Kong:
3rd Floor, Perfectech Centre
64 Wong Chuk Hang Road
Aberdeen
Hong Kong

10 June 2005

To the Shareholders

Dear Sir or Madam,

ACQUISITION OF 41% EQUITY INTEREST IN PERFECTECH INTERNATIONAL MANUFACTURING LIMITED AND GRANTING OF CORPORATE GUARANTEES IN RESPECT OF PAYMENT OF CONSIDERATION TO CONNECTED PERSONS

INTRODUCTION

On 9 May 2005, the Board announced that Freshwater Trading Limited, an indirect wholly owned subsidiary of the Company, had entered into the Sale and Purchase Agreements with the Vendors on 22 April 2005 for the acquisition of 41% equity interest in PIML. Upon Completion on 10 June 2005, PIML has become an indirect wholly owned subsidiary of the Company. The Consideration of HK$17,083,000 will be satisfied in cash. The Purchaser had previously acquired from First View, Glennie and Dynamic Champion Inc. in the 2003 Acquisition 59% equity interest in PIML pursuant to the sale and purchase agreement dated 9 December 2003 for an aggregate cash consideration of HK$15,340,000. The announcement regarding the 2003 Acquisition has been made on 11 December 2003 pursuant to the then paragraph 2 of the Listing Agreement.

* *for identification purpose only*

The purpose of this circular is (i) to provide Shareholders with further information in relation to the Acquisition, (ii) to set out the letter of advice from Menlo to the Independent Board Committee and the independent Shareholders in respect of the Acquisition, and (iii) to set out the recommendation of the Independent Board Committee to the independent Shareholders in respect of the Acquisition.

THE SALE AND PURCHASE AGREEMENTS

1. The First View and Glennie Agreement

Date: **22 April 2005**

Parties: (1) Vendors:

(a) First View; and

(b) Glennie;

First View and Glennie are substantial shareholders of PIML, a 59% subsidiary of the Company and accordingly are connected persons of the Company as defined under the Listing Rules. Glennie is 100% beneficially owned by Mr. Lee, who is also a director of PIML, since April 1996. First View is 100% beneficially owned by Mr. Lau since May 1997.

(2) Purchaser: Freshwater Trading Limited, a company incorporated in the British Virgin Islands and is an indirect wholly owned subsidiary of the Company

(3) Guarantor: The Company

Asset acquired

The F&G Sale Shares, as to (i) 552,825 F&G Sale Shares (representing 22.5% of the issued share capital of PIML) from First View; and (ii) 331,695 F&G Sale Shares (representing 13.5% of the issued share capital of PIML) from Glennie.

Consideration

HK$15,000,000.

The consideration for the First View and Glennie Agreement has been/will be satisfied in cash as follows:

(a) HK$7,500,000 has been paid as refundable deposit by the Purchaser to First View and Glennie, on a pro-rata basis, upon signing of the First View and Glennie Agreement; and

(b) as to the balance of HK$7,500,000 payable by the Purchaser to First View and Glennie, on a pro-rata basis, on or before 31 July 2005, being the Post Completion Payments.

The Guarantor irrevocably and unconditionally granted guarantees to First View and Glennie respectively for the due and punctual performance of the Purchaser's obligations to pay the Post Completion Payments. The granting of the Corporate Guarantees constitute a connected transaction of the Company under the Listing Rules.

Conditions

The First View and Glennie Agreement is conditional upon:

(1) if required, the independent Shareholders passing at a special general meeting of the Company the necessary resolution approving the First View and Glennie Agreement and the transactions contemplated thereunder;

(2) the warranties provided in the First View and Glennie Agreement remaining true and accurate in all respect(s);

(3) all necessary approvals, consents, licences and authorisations required to be obtained by the First View and Glennie and the Purchaser in connection with the First View and Glennie Agreement and the transactions contemplated thereunder have been obtained; and

(4) the Great Venture Agreement becoming unconditional and not terminated;

Conditions (2) and (3) are waivable by the Purchaser while conditions (1) and (4) are not waivable as stated in the First View and Glennie Agreement.

Long-stop Date: The First View and Glennie Agreement provides that should the satisfaction of all the above Conditions, if not waived by the Purchaser, not occur on or before 12:00 noon on 31 May 2005 or such later date as the Purchaser may agree, either orally or in writing, the First View and Glennie Agreement shall terminate, and the Vendors shall forthwith, refund the deposit received to the Purchaser.

On 30 May 2005, the Company announced that, pursuant to the Sale and Purchase Agreements, the Purchaser has agreed by way of a letter dated 30 May 2005 to extend the long stop dates of the Sale and Purchase Agreements from 31 May 2005 to 10 June 2005, subject to further extension(s) as may be agreed by the Purchaser either orally or in writing.

Completion: The First View and Glennie Agreement was completed on 10 June 2005.

None of the conditions has been waived by the Purchaser.

2. The Great Venture Agreement

Date: **22 April 2005**

Parties: (1) Vendor: Great Venture

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, Great Venture and its ultimate beneficial owner as to 100% thereof, Mr. Chui Ming Kay, are third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules), other than its 5% shareholding in PIML.

(2) Purchaser: Freshwater Trading Limited, a company incorporated in the British Virgin Islands and is an indirect wholly owned subsidiary of the Company

(3) Guarantor: The Company

Asset acquired

GV Sale Shares.

Consideration

HK$2,083,000.

The consideration for the Great Venture Agreement has been/will be satisfied in cash as follows:

(a) HK$1,041,500 has been paid as refundable deposit by the Purchaser to Great Venture upon signing of the Great Venture Agreement; and

(b) as to the balance of HK$1,041,500 will be paid by the Purchaser to Great Venture on or before 31 July 2005, being the Post Completion Payments.

The Guarantor has irrevocably and unconditionally guaranteed to Great Venture for the due and punctual performance of the Purchaser's obligations to pay the Post Completion Payments.

Conditions

The Great Venture Agreement is conditional upon:

(1) if required, the independent Shareholders passing at a special general meeting of the Company the necessary resolution approving the Great Venture Agreement and the transactions contemplated thereunder;

(2) the warranties provided in the Great Venture Agreement remaining true and accurate in all respect(s);

(3) all necessary approvals, consents, licences and authorisations required to be obtained by Great Venture and the Purchaser in connection with the Great Venture Agreement and the transactions contemplated thereunder have been obtained; and

(4) the First View and Glennie Agreement becoming unconditional and not terminated.

Conditions (2) and (3) are waivable by the Purchaser while conditions (1) and (4) are not waivable as stated in the Great Venture Agreement.

Long-stop Date: The Great Venture Agreement provides that should the satisfaction of all the above Conditions, if not waived by the Purchaser, not occur on or before 12:00 noon on 31 May 2005 or such later date as the Purchaser may agree, either orally or in writing, the Great Venture Agreement shall terminate, and the Vendors shall forthwith, refund the deposit received to the Purchaser.

On 30 May 2005, the Company announced that, pursuant to the Sale and Purchase Agreements, the Purchaser has agreed by way of a letter dated 30 May 2005 to extend the long stop dates of the Sale and Purchase Agreements from 31 May 2005 to 10 June 2005, subject to further extension(s) as may be agreed by the Purchaser either orally or in writing.

Completion: The Great Venture Agreement was completed on 10 June 2005.

None of the conditions has been waived by the Purchaser.

BASIS OF DETERMINATION OF THE CONSIDERATION

The Consideration paid to the Vendors was determined after arm's length negotiation between the parties to the Sale and Purchase Agreements with reference to the financial performance, the net asset value and future prospects of PIML and the synergy effect arising from the Acquisition. The Consideration paid to the Vendors under the Sale and Purchase Agreements represented a premium of approximately 83.3% over the corresponding 41% of the audited net assets of PIML of approximately HK$22,732,000 as at 31 December 2004 and a price-earnings ratio of approximately 11.5 times with reference to the corresponding 41% of the audited consolidated net profit after taxation and minority interests of PIML for the year ended 31 December 2004. The Consideration also represented a premium of approximately 37.5% over the corresponding 41% of the audited net tangible assets of PIML of approximately HK$30,311,000 as at 31 December 2004. The difference between the net assets and the net tangible assets of PIML, being approximately HK$7,579,000, is the unamortized negative goodwill brought forward as a result of the reorganisation of PIML and its subsidiaries for the purpose of the 2003 Acquisition on 8 December 2003, which indicates that the consideration paid by PIML in exchange for its subsidiaries' assets under the reorganisation was at a price less than the fair value thereof.

The Directors considered that it is commercially justifiable to also take into account the overall consideration for acquiring 100% equity interest in PIML by the Company of HK$32,423,000 (comprising HK$15,340,000 for the acquisition of 59% equity interest in PIML in December 2003 and HK$17,083,000 for the acquisition of 41% equity interest in PIML in April 2005) which represented a premium of approximately 42.6% to the audited net assets of PIML as at 31 December 2004.

The consideration paid by the Company for acquiring 59% of PIML under the 2003 Acquisition was HK$15,340,000 was determined after arm's length negotiation between the parties to the 2003 Acquisition. As announced by the Company on 11 December 2003 regarding the 2003 Acquisition, the consideration represented (i) a discount of 13% to the audited pro forma net asset value of PIML as at 30 September 2003 (assuming reorganisation of PIML for the purpose of the 2003 Acquisition had taken place) of approximately HK$30 million as announced on 11 December 2003; and (ii) a price-earnings ratio of approximately 8.13 times with reference to the audited pro forma combined profit after tax and minority interests of PIML for the nine months ended 30 September 2003 of approximately HK$3.2 million as disclosed in the announcement of the 2003 Acquisition. The audited pro forma basis was adopted as at 30 September 2003 as mutually agreed between all parties since the reorganisation of PIML was not yet completed until 8 December 2003.

Since the 2003 Acquisition, the Group has benefited from positive business synergies as a result of the following: (i) sharing common customer base between the Group and PIML in mould making business; and (ii) cost savings resulting from the centralization of PIML's raw materials procurement. Moreover, the Group has implemented a number of costs reduction and human resources streamlining measures with PIML. Furthermore, the Directors are devising further streamlining and business expansion plans for PIML. The Directors also considered that, with the implementation of the aforementioned new plans, the Group will further benefit from PIML's existing clientele and competitive strengths in the toys products and mould-making fields.

The Acquisition of the remaining equity interest in PIML by the Group will enable the Group to capture 100% of the profit in PIML and secure complete management control over PIML and to better position the Group for future business development.

Comparing to the consideration paid under the 2003 Acquisition, the Directors consider that the Consideration, the high premium to net asset value and the price-earning ratio under the Acquisition are fair and reasonable in view of the quality customer base, synergy and streamlining effect arising from centralization of procurement, human resources or other cost reduction measures which is expected to be in the final stage of implementation, the Company being able to secure complete management control following the Acquisition, the improvement in the overall financial performance in 2004 in particular the gross profit margin, the business expansions plan and future prospects of PIML.

Given the improvement in the financial performance in 2004 and the other benefits as mentioned above, the executive Directors consider that the terms of the Sale and Purchase Agreements were entered into on normal commercial terms and is fair and reasonable so far as the Shareholders are concerned and the Acquisition is in the interest of the Company and the Shareholders as a whole. Further details for the reasons of entering into the agreement are disclosed under the section "Reasons for the Acquisition".

INFORMATION ON PIML

PIML is a company incorporated on 18 May 2001 in the British Virgin Islands and its subsidiaries are principally engaged in the manufacturing and trading of toys and consumer products (such as plastic cup holders used in cars). In addition, PIML and its subsidiaries are also engaged in the manufacturing of plastic injection moulds for plastic toys and the provision of technical services involving high precision injection assembly of such moulds (EMS).

The Group acquired 59% of PIML, which was formerly named as Rich Success Profits Limited, on 9 December 2003. The announcement for the acquisition of 59% equity interest in PIML by the Group was made on 11 December 2003. As stated in the announcement, the vendors were First View (3%), Glennie (7%) and Dynamic Champion Inc. (49%) which were 100% beneficially owned by Mr. Lau, Mr. Lee and Technology Innovation Inc. (which was independent of Mr. Lau and Mr. Lee) respectively, who and whose ultimate beneficial owners were, to the best knowledge, information and belief of the Directors after having made all reasonable enquiries, third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules). The total consideration was HK$15,340,000. Since 9 December 2003, the results of PIML have been consolidated into the Group's financial statements.

According to the audited consolidated financial statements of PIML (which accounted for only 23 days of the results of PIML from 9 December to 31 December 2003, both dates inclusive), the audited consolidated turnover, net profit before taxation and minority interests and net profit after taxation and minority interests for the year ended 31 December 2003 were approximately HK$9,442,000, HK$231,000 and HK$139,000 respectively while the audited total assets and audited net assets of PIML as at 31 December 2003 were approximately HK$71,209,000 and HK$19,124,000 respectively.

Based on the management accounts of PIML (which accounted for a full-year result from 1 January 2003 to 31 December 2003), the unaudited consolidated turnover of PIML, net profit before taxation and minority interests and net profit after taxation and minority interests for the year ended 31 December 2003 were approximately HK$159,903,000, HK$3,558,000 and HK$2,771,000 respectively.

According to the audited consolidated financial statements of PIML, the audited consolidated turnover, net profit before taxation and minority interests and net profit after taxation and minority interests for the year ended 31 December 2004 were approximately HK$142,214,000, HK$4,971,000 and HK$3,608,000 respectively while the audited total assets and audited net assets of PIML at as 31 December 2004 were approximately HK$60,117,000 and HK$22,732,000 respectively.

Below summarises the consolidated financial results of PIML for the two years ended 31 December 2003 and 2004:

	Unaudited For the year ended 31 December 2003 *HK$'000*	**Audited For the year ended 31 December 2004** *HK$'000*
Turnover		
– sale of goods	159,452	140,999
– sub-contracting service income	451	1,215
Profit before taxation and minority interests	3,558	4,971
Profit after taxation and minority interests	2,771	3,608
Total assets	71,210	60,117
Net asset value	19,124	22,732

The improvement in audited consolidated profit before and after taxation and minority interests for the year ended 31 December 2004, despite a slight decline in audited consolidated turnover as compared to that of 2003, was primarily attributable to the benefits of the relevant costs reduction and streamlining measures successfully implemented by the Group and the improvement of performance of moulding business since the 2003 Acquisition.

The consolidated turnover of PIML during the relevant periods was operating in nature and were sale and manufacture of toys products and moulding.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the sale and manufacture of novelties, festival decorations, packaging products, toy products and PVC film trading and plastic materials. The Group's principal business of toys products is all carried out by PIML. The moulding business carried out by PIML is not regarded by the Directors as the core business of the Group currently.

The Group will acquire the remaining 41% equity interest of PIML through the Acquisition. Upon Completion, PIML will become an indirect wholly owned subsidiary of the Company.

Further to the Company's prior acquisition of 59% equity interest in PIML in December 2003, the Group has been leveraging on PIML's quality customer base and strong capabilities in mould making and tooling and capitalizing on the resulting synergy effect. Since the 2003 Acquisition, the Group has benefited from positive business synergies as a result of the following: (i) sharing common customer base between the Group and PIML in mould making business; and (ii) cost savings resulting from the centralization of PIML's raw materials procurement. Moreover, the Group has implemented a number of costs reduction and human resources streamlining measures with PIML. The improvement in audited consolidated profit before and after taxation and minority interests of the Group for the year ended 31 December 2004, despite a slight decline in audited consolidated turnover as compared to that of 2003, was primarily attributable to the successful implementation by the Group of the above measures and the improvement of performance of moulding business since the 2003 Acquisition. Furthermore, the Directors are devising further streamlining and business expansion plans for PIML. As PIML is expected to complete the final stage of the streamlining progress shortly, together with the anticipated expansion in injection mould manufacturing division, PIML is expected to attain solid growth and have a positive contribution to the Group as from the current financial year and in the long run.

The Directors believe that the Acquisition allows the Group to fully integrate the operation of PIML within the Group and also provides the Company with a stable income source with promising business potential while further enjoys cost benefits, operating efficiency and other synergy effect. In addition, the Acquisition will not only provide operating efficiency to the Group but will also better position the Group for solid expansion in the toys and mould-making sector to grasp business opportunities in the future. The Directors would like to further tap into the benefits of PIML and the Acquisition, accordingly, enables the Group to capture 100% of the profit in PIML.

The Consideration will be fully financed by the internal resources of the Group. As at the Latest Practicable Date, net cash and bank balances of the Group is approximately HK$10 million after the payment of the refundable deposits for the Acquisition (i.e. approximately HK$8.5 million).

Following the completion of the 2003 Acquisition, all the then directors resigned except Mr. Lee. Mr. Poon and Mr. Ip Siu On, an executive Director, representing the Group were appointed to the board of PIML. Upon Completion, the board of PIML shall comprise Mr. Poon, Mr. Ip Siu On, Mr. Tsui Yan Lee, Benjamin, an executive Director, and Mr. Lo Wing Wai, a minority shareholder and an executive director of non-wholly owned subsidiaries of PIML. PIML will become an indirect wholly owned subsidiary of Company and no minority interest in PIML should be accounted for thereafter.

Upon Completion, the Directors believe that the Acquisition will enhance the net assets and reduce the liabilities of the Group in the long run since the Directors believe that PIML is profit-making and PIML will become its indirect wholly owned subsidiary thereafter and the Group will consolidate 100% of its net assets as the share of minority interests of the Group arising from 41% minority interest in PIML would no longer apply.

In accordance with the current accounting policy of the Group, the goodwill arising from the Acquisition of approximately HK$4,655,000 (to be reflected upon Completion) will be amortized over 10 years and be charged to profit and loss accounts on a straight line basis accordingly. However, the goodwill to be amortized each year of approximately HK$465,500 is not considered to be material to the Group as a whole.

Moreover, the Directors do not expect any material impact on the net tangible assets of the Group as a whole despite the goodwill arising from the Acquisition of approximately HK$4,655,000.

In addition, the Directors also believe that there will be an overall improvement in the earning base of the Group arising from the Acquisition in view of the financial performance in 2004 and the quality customer base of PIML and the future prospects synergy effect arising from the Acquisition. Although the Acquisition will give rise to an amortization costs of approximately HK$465,500 per year in respect of the goodwill arising from the Acquisition over the amortization period, the Directors do not consider such costs will have any significant impact on the earning base of the Group as a whole.

Since the Consideration is financed by internal resources of the Group, there is an immediate net cash outflow of approximately HK$17,083,000. As the Group at present has bank balances of more than $10,000,000 available for the Post Completion Payments and unutilized bank facilities of over HK$100,000,000, within which over HK$30,000,000 are available by means of overdraft or short term loans, for its normal business engagements and daily operational expenses, the Acquisition will not affect the working capital position of the Group to a large extent and the Directors consider that this is an efficient utilisation of the Group's resources and better position the Group for future growth. As such, in the long run, the Directors expect that the Acquisition will benefit the Group as a whole.

THE IMPLICATIONS UNDER THE LISTING RULES

First View and Glennie are substantial shareholders of PIML and accordingly are connected persons (as defined in the Listing Rules) of the Company.

Glennie is 100% beneficially owned by Mr. Lee who is also a director of PIML. Other than being a substantial shareholder of PIML, to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, First View and its ultimate beneficial owner, Mr. Lau, are third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules). Upon Completion, First View will cease to be a connected person of the Company and Mr. Lee will resign as a director of PIML. Mr. Lee and his associates including Glennie shall continue to be connected persons of the Company under the Listing Rules in view of his past directorship of PIML within the preceding twelve months.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Great Venture and its ultimate beneficial owner, Mr. Chui Ming Kay, other than its 5% shareholding in PIML, are third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

Save for being shareholders of PIML, First View, Glennie and Great Venture and their respective ultimate beneficial owners are all independent of each other.

As the Great Venture Agreement is conditional upon the First View and Glennie Agreement, Great Venture and its ultimate beneficial owner are deemed to be connected persons of the Company under Rule 14A.06 of the Listing Rules.

As the Vendors are connected persons of the Company and the applicable Percentage Ratios for the Acquisition are greater than 2.5% and over HK$10 million, the Acquisition constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting and announcement requirement and the approval of the independent Shareholders set out in the Listing Rules. None of the Vendors and their respective associates has any shareholding in the Company. No Shareholder and its respective associates has any interest in the Acquisition which is different from the other Shareholders. As no Shareholder or its respective associates has any material interest in the Acquisition, no Shareholder needs to abstain from voting at the general meeting.

In addition, as the applicable Percentage Ratios for the Acquisition exceed 5% but are below 25%, the Acquisition also constitutes a discloseable transaction of the Company under the Listing Rules.

The Independent Board Committee comprising Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Ng Siu Yu, Larry has been appointed by the Board to advise the Shareholders as to the fairness and reasonableness of the terms of the Sale and Purchase Agreements and the granting of Corporate Guarantees. Written approval of the Sale and Purchase Agreements and the granting of the Corporate Guarantees has been obtained from Mr. Poon, Mime and Nielsen, a closely allied group of Shareholders. As at the date of Announcement and the Latest Practicable Date, Mime, Nielsen and Mr. Poon holds respectively 101,757,630, 63,097,200 and 14,984,000 Shares, representing approximately 33.21%, 20.59% and 4.89% respectively and an aggregate of about 58.69% of the entire issued share capital of the Company which carry the same voting rights. Mime is 100% beneficially owned by Mr. Poon and his spouse, Ms. Lau Kwai Ngor and Nielsen is 100% beneficially owned by Mr. Leung, his spouse, Ms. Tai Yee Foon, and his children. Mr. Poon is executive Director and Chairman and Managing Director, and Mr. Leung is executive Director and Deputy Managing Director. Mr. Poon and Mr. Leung are co-founders of the Group and have served as Directors since the Shares were first listed on the Stock Exchange in October 1992. In addition, Mr. Poon, Mime, Nielsen and the Company have confirmed that they have voted in the same way in the past on all shareholders' resolutions, including routine resolutions at annual general meetings. Mr. Poon, Mime and Nielsen and their respective associates, as a closely allied group of Shareholders, are not interested in the Acquisition other than Mr. Poon, Mime and Nielsen's indirect interest in the Company as Shareholders. As such, Mr. Poon, Mime and Nielsen are not required to abstain from voting. In view of the aforesaid and to avoid unnecessary expenses of convening a Shareholders' meeting. The Directors (including the independent non-executive Directors) consider that Shareholders' approval by way of resolution passed at a special general meeting would not be in the interest of the Company and its Shareholders as a whole. An application has been made by the Company to the Stock Exchange for a waiver from strict compliance with the Listing Rules regarding the holding of a Shareholders' meeting for the approval of the Sale and Purchase Agreements and the granting of the Corporate Guarantees pursuant to Rule 14A.43 of the Listing Rules.

JOINT FINANCIAL ADVISERS

Joint financial advisers have been appointed to advise the Company on the Acquisition. Save and except that Ms. Lau Kwai Ngor, spouse of Mr. Poon, is interested in approximately 2% of the entire issued share capital of Phoenix Capital Holdings Limited, the holding company of Phoenix Capital Asia Limited and to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the joint financial advisers are third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

RECOMMENDATION

The Independent Board Committee comprising Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Ng Siu Yu, Larry has been appointed by the Board to advise the independent Shareholders as to the fairness and reasonableness of the terms of the Sale and Purchase Agreements and the granting of the Corporate Guarantees. Menlo Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in this regard.

Your attention is drawn to the letter from the Independent Board Committee set out on page 17 of this circular. The Independent Board Committee, having taken into account the advice of Menlo, the text of which is set out on pages 18 to 31 of this circular, considers that the terms of the Acquisition are fair and reasonable so far as the independent Shareholders are concerned.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully
By order of the board of directors of
Perfectech International Holdings Limited
Poon Siu Chung
Chairman

PERFECTECH INTERNATIONAL HOLDINGS LIMITED
威發國際集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 0765)

10 June 2005

To the independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to the circular of the Company dated 10 June 2005 to the Shareholders (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to the fairness and reasonableness of the terms of the Sale and Purchase Agreements and the granting of Corporate Guarantees. Menlo Capital Limited has been appointed by the Company as the independent financial adviser to advise you and us in this regard. Details of its recommendation, together with the principal factors and reasons it has taken into consideration in arriving at its recommendation are set out in its letter set out on pages 18 to 31 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 16 of the Circular and the additional information set out in the appendix to the Circular.

Having considered the terms of the Sale and Purchase Agreements and the granting of Corporate Guarantees, and taken into account the advice from Menlo Capital Limited and in particular the principal factors and reasons set out in the letter of advice from Menlo Capital Limited, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole and the respective terms of the Sale and Purchase Agreements and the granting of Corporate Guarantees in relation to the Acquisition are fair and reasonable.

Yours faithfully,
Mr. Lam Yat Cheong,
Mr. Yip Chi Hung
Mr. Ng Siu Yu, Larry
Independent Board Committee

* *for identification purpose only*

The following is the text of a letter from Menlo in connection with the advice to the Independent Board Committee and independent Shareholders on the Sale and Purchase Agreements and the granting of Corporate Guarantees, which has been prepared for the purpose of inclusion in this circular:

MENLO CAPITAL

Menlo Capital Limited
Room 505, Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

10 June 2005

To the Independent Board Committee and the independent Shareholders of Perfectech International Holdings Limited

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION SALE AND PURCHASE AGREEMENTS AND GRANTING OF CORPORATE GUARANTEES

We refer to our appointment to advise the Independent Board Committee and independent Shareholders in respect of the Sale and Purchase Agreements and the granting of Corporate Guarantees in relation to the Acquisition details of which are set out in the letter from the Board (the "Board Letter") contained in the circular of the Company dated 10 June 2005 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

On 22 April 2005, the Purchaser, an indirect wholly owned subsidiary of the Company, entered into the Sale and Purchase Agreements with, among others, the Vendors in relation to the Acquisition of the Sale Shares for an aggregate consideration of HK$17,083,000. Prior to the Completion of the Acquisition, the equity interest of PIML was beneficially held as to 59% by the Purchaser, 22.5% by First View, 13.5% by Glennie and 5% by Great Venture.

First View and Glennie are substantial shareholders of PIML and accordingly are connected persons of the Company as defined under the Listing Rules. As the Great Venture Agreement is conditional upon the First View and Glennie Agreement and First View and Glennie Agreement is conditional upon the Great Venture Agreement, Great Venture is deemed to be connected persons of the Company under the Listing Rules. As the Vendors are connected persons of the Company and the applicable Percentage Ratios for the Acquisition are greater than 2.5% but below 25%, the Acquisition constitutes a connected transaction of the Company under the Listing Rules and is subject to the approval of the independent Shareholders set out in the Listing Rules.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors or the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to doubt the accuracy of information provided or to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge and belief, they believe there are no other facts or representations the omission of which would make any statement contained in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

INFORMATION ON PIML

PIML and its subsidiaries are principally engaged in the manufacturing and trading of toys and consumer products. In addition, PIML and its subsidiaries are also engaged in the manufacturing of plastic injection moulds for plastic toys and provision of technical services involving high precision injection assembly of such moulds.

The Company acquired 59% of PIML, formerly named Rich Success Profits Ltd., on 9 December 2003. The vendors were First View (3%), Glennie (7%) and Dynamic Champion Inc. (49%). The total consideration was HK$15,340,000. Since 9 December 2003, the results of PIML have been consolidated into the Group.

Based on the management accounts of PIML, the unaudited consolidated turnover of PIML, net profit before taxation and minority interests and net profit after taxation and minority interests for the year ended 31 December 2003 were approximately HK$159,903,000, HK$3,558,000 and HK$2,771,000 respectively.

According to the audited consolidated financial statements of PIML, the audited consolidated turnover, net profit before taxation and minority interests and net profit after taxation and minority interests for the year ended 31 December 2004 were approximately HK$142,214,000, HK$4,971,000 and HK$3,608,000 respectively while the audited total assets and audited net assets of PIML at as 31 December 2004 were approximately HK$60,117,000 and HK$22,732,000 respectively.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

Prior to the Completion of the Acquisition, the equity interest of PIML was beneficially held as to 59% by the Purchaser, 22.5% by First View, 13.5% by Glennie and 5% by Great Venture. On 22 April 2005, the Purchaser entered into the Sale and Purchase Agreements with, among others, the Vendors in relation to the Acquisition.

In arriving at our opinions and recommendations to the Independent Board Committee and the independent Shareholders in respect of the Sale and Purchase Agreements and the Corporate Guarantee in relation to the Acquisition, we have considered the principal factors and reasons set out below:

THE SALE AND PURCHASE AGREEMENTS

1. The First View and Glennie Agreement

Date: **22 April 2005**

Parties: (1) Vendors:

(a) First View; and

(b) Glennie;

First View and Glennie, substantial shareholders of PIML, are connected persons of the Company as defined under the Listing Rules.

(2) Purchaser: Freshwater Trading Limited, a company incorporated in the British Virgin Islands and is an indirect wholly owned subsidiary of the Company

(3) Guarantor: The Company

Asset acquired

The F&G Sale Shares, as to (i) 552,825 F&G Sale Shares (representing 22.5% of the issued share capital of PIML) from First View; and (ii) 331,695 F&G Sale Shares (representing 13.5% of the issued share capital of PIML) from Glennie;

Consideration

The consideration for the First View and Glennie Agreement has been/will be satisfied in cash as follows:

(a) HK$7,500,000 has been paid as refundable deposit by the Purchaser to First View and Glennie, on a pro-rata basis, upon signing of the First View and Glennie Agreement; and

(b) as to the balance of HK$7,500,000 payable by the Purchaser to First View and Glennie, on a pro-rata basis, on or before 31 July 2005.

The consideration for First View and Glennie, in the amount of HK$15,000,000, was determined after arm's length negotiation between the parties to the First View and Glennie Agreement with reference to its financial performance, the net asset value and future prospect of PIML and synergy effect arising from the Acquisition.

Consideration to net asset value

The consideration paid to First View and Glennie represents a premium of approximately 83.3% (being the consideration of HK$15,000,000 to the 36% of the audited net asset of PIML of approximately HK$22,732,000 as at 31 December 2004) or a premium of approximately 37.5% (being the consideration of HK$15,000,000 to the 36% of the audited net tangible asset of the reorganized PIML of approximately HK$ HK$30,311,000 as at 31 December 2004) to 36% of the audited net asset and audited net tangible asset of PIML respectively as at 31 December 2004. The difference between the net assets and the net tangible assets of PIML, being approximately HK$7,579,000, is the unamortized negative goodwill brought forward as a result of the reorganisation of PIML and its subsidiaries for the purpose of the 2003 Acquisition on 8 December 2003, which means that the consideration paid by PIML in exchange for its subsidiaries' assets under the reorganisation was at a price less than the fair value thereof.

As announced by the Company on 11 December 2003 regarding the 2003 Acquisition, the consideration paid by the Company for acquiring 59% of PIML under the 2003 Acquisition was HK$15,340,000 which represented a discount of 13% to the audited pro forma net asset value or the net tangible asset value of PIML as at 30 September 2003 (assuming reorganisation of PIML for the purpose of the 2003 Acquisition had taken place) of approximately HK$30 million as announced on 11 December 2003.

	The 2003 Acquisition based on audited combined pro forma accounts of PIML as at 30 September 2003 (approximately)	**The Acquisition based on audited consolidated accounts of PIML as at 31 December 2004 (approximately)**
Premium/(discount) over/to net asset value	(13%)	83.3%
Premium/(discount) over/to net tangible asset value	(13%)	37.5%

We are of the view that the consideration of the First View and Glennie Agreement carrying a high premium over the net asset value of PIML will have a negative impact on the financial position of the Group, as discussed under the section "Financial effect of the Acquisition" in this letter. However, the benefits related to the Acquisition should be taken into account as the Acquisition allows the Group to fully integrate the operation of PIML within the Group and also provides the Company with a stable income source to the Group with promising business potential while further enjoys cost benefits, operating efficiency and other synergy effect.

Price to earnings

The price-earnings ratio ("P/E ratio") of the consideration of approximately 11.5 times of the Acquisition was higher than the annualized P/E ratio of the consideration of approximately 8.13 times with reference to the audited pro forma combined profit after tax and minority interests of the reorganized PIML for the nine months ended 30 September 2003 paid to vendors by the Group in the 2003 Acquisition.

	The 2003 Acquisition based on audited combined pro forma accounts of PIML for nine months ended 30 September 2003 (approximately)	**The Acquisition based on audited consolidated accounts of PIML for the year ended 31 December 2004 (approximately)**
P/E ratio	8.13 times	11.5 times

We have found, to the best of our knowledge, that only twelve other listed companies out of all the listed issuers on the Stock Exchange are principally engaged in manufacturing and sale of toys and consumer products. Nine of these listed companies (the "Relevant Companies") were profit making according to the latest audited accounts published prior to 22 April 2005. As at 22 April 2005, being the date of the Sale and Purchase Agreements, and as at 7 June 2005, being the latest practicable date, the P/E ratio with reference to the audited consolidated net profit after taxation and minority interests of the Relevant Companies are as follows:

COMPANY NAME		EARNING PER SHARE *(HK$)*	CLOSING PRICE as at 22/4/2005 (the date of the Sale and Purchase Agreements) *(HK$)*	P/E RATIO (22/4/2005) APPROXIMATELY	CLOSING PRICE as at 7/6/2005 *(HK$)*	P/E RATIO APPROXIMATELY (7/6/2005)
Herald Holdings Ltd	(0114)	0.1007	0.8	7.94	0.78	7.75
Kader Holdings Co. Ltd	(0180)	0.0051	0.214	41.96	0.195	38.2
Sewco International Holdings Ltd	(0209)	0.0275	0.305	11.09	0.295	10.7
Lung Cheong International Holdings Ltd	(0348)	0.0831	0.47	5.66	0.47	5.66
Kiu Hung International Holdings Ltd	(0381)	loss	0.16	N/A	0.15	N/A
Ruili Holdings Ltd	(0491)	0.188	0.285	1.52	0.155	0.82
RBI Holdings Ltd	(0566)	0.1453	1.72	11.84	1.55	10.67
Playmates Holdings Ltd	(0635)	0.1672	1.62	9.69	1.63	9.75
Kin Yat Holdings Ltd	(0638)	0.0613	0.74	12.07	0.72	11.75
Capital Prosper Ltd	(1003)	loss	0.072	N/A	0.087	N/A
Dream International Ltd	(1126)	0.0794	1.18	14.86	1.08	13.60
Xin Corporation Ltd	(1141)	loss	0.40	N/A	0.32	N/A
Average				13.0		12.1
Median				12.1		10.7

The average P/E ratio and the median P/E ratio as at 22 April 2005, being the date of the Sale and Purchase Agreements, of the Relevant Companies were approximately 13.0 times and approximately 12.1 times respectively. The consideration paid to First View and Glennie, at a P/E ratio of approximately 11.5 times of PIML's net profit after taxation and minority interests for the year ended 31 December 2004 is lower than the average P/E ratio of the Relevant Companies by 1.5 times and lower than the median P/E ratio of the Relevant Companies by 0.6 times. We are of the opinion that the consideration is slightly better than the market price with reference to the P/E ratio and is fair and reasonable as well as in the interests of the Company and the Shareholders as a whole are concerned. The average P/E ratio and the median P/E ratio as at 7 June 2005 of the Relevant Companies were approximately 12.1 times and approximately 10.7 times respectively.

The P/E ratio of the consideration of approximately 11.5 times of the Acquisition was 3.37 times higher than the P/E ratio of the consideration of approximately 8.13 times paid to vendors by the Group in the 2003 Acquisition. We share the view of the Directors that in view of the quality customer base, synergy and streamlining effect arising from centralization of procurement, human resources or other cost reduction measures which is expected to be in the final stage of implementation, the Company being able to secure complete management control following the Acquisition, the improvement in the overall financial performance in 2004 in particular the gross profit margin, the business expansions plan and the future prospects of PIML. The Consideration, with an increase in the P/E ratio and the premium in the Acquisition as compared with the 2003 Acquisition, is fair and reasonable, so far as the Company and the Shareholders are concerned.

Corporate Guarantee

The Guarantor irrevocably and unconditionally granted guarantees to First View and Glennie respectively for the due and punctual performance of the Purchaser's obligations to pay the Post Completion Payments. The corporate guarantees constitute a connected transaction of the Company under the Listing Rules.

In view of the fact that (i) the Group will ultimately capture 100% of the profit in PIML through the Acquisition; (ii) the Purchaser, an indirect wholly owned subsidiary of the Company, does has the financial strength to complete the Acquisition by itself; and (iii) the Group will benefit from the Post Completion Payments, a deferred payment arrangement instead of payment upon Completion we are of the view that the granting of Corporate Guarantees to First View and Glennie is fair and reasonable so far as the Company and the Shareholders are concerned.

Conditions:

The First View and Glennie Agreement is conditional upon:

(1) if required, the independent Shareholders passing at a special general meeting of the Company the necessary resolution approving the First View and Glennie Agreement and the transactions contemplated thereunder;

(2) the warranties provided in the First View and Glennie Agreement remaining true and accurate in all respect(s);

(3) all necessary approvals, consents, licences and authorisations required to be obtained by the First View and Glennie and the Purchaser in connection with the First View and Glennie Agreement and the transactions contemplated thereunder have been obtained; and

(4) the Great Venture Agreement becoming unconditional and not terminated;

Conditions (2) and (3) are waivable by the Purchaser while conditions (1) and (4) are not waivable as stated in the First View and Glennie Agreement.

We have reviewed the terms of the First View and Glennie Agreement. We are of the view that the terms are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned. The arrangement of Post Completion Payment and the provision of Corporate Guarantee are not the commonly used terms in otherwise standard sale and purchase agreements. However, Post Completion Payment is in the interests of the Company and the provision of Corporate Guarantee, as discussed under the section of "Corporate Guarantee", is fair and reasonable so far as the Company and the Shareholders are concerned.

2. The Great Venture Agreement

Date: **22 April 2005**

Parties: (1) Vendor: Great Venture

(2) Purchaser: Freshwater Trading Limited, a company incorporated in the British Virgin Islands and is an indirect wholly owned subsidiary of the Company

(3) Guarantor: The Company

Asset acquired

GV Sale Shares.

Consideration

HK$2,083,000. The consideration was determined after arm's length negotiation between the parties to the Great Venture Agreement and on the same basis as those under the First View and Glennie Agreement.

The consideration for the Great Venture Agreement has been/will be satisfied in cash as follows:

(a) HK$1,041,500 has been paid as refundable deposit by the Purchaser to Great Venture upon signing of the Great Venture Agreement; and

(b) as to the balance of HK$1,041,500 to be paid by the Purchaser to Great Venture on or before 31 July 2005.

We are of the view that the consideration for the Great Venture Agreement, being on the same basis as those under the First View and Glennie Agreement, are fair and reasonable so far as the Company and the Shareholders are concerned.

Corporate Guarantee

The Guarantor irrevocably and unconditionally granted a guarantee to Great Venture for the due and punctual performance of the Purchaser's obligations to pay the Post Completion Payments.

In view of the fact that (i) the Group will ultimately capture 100% of the profit in PIML through the Acquisition; (ii) the Purchaser, an indirect wholly owned subsidiary of the Company, does has the financial strength to complete the Acquisition by itself; and (iii) the Group will benefit from the Post Completion Payments, a deferred payment arrangement instead of payment upon Completion, we are of the view that the granting of Corporate Guarantee to Great Venture is fair and reasonable so far as the Company and the Shareholders are concerned.

Conditions:

The Great Venture Agreement is conditional upon:

(1) if required, the independent Shareholders passing at a special general meeting of the Company the necessary resolution approving the Great Venture Agreement and the transactions contemplated thereunder;

(2) the warranties provided in the Great Venture Agreement remaining true and accurate in all respect(s);

(3) all necessary approvals, consents, licences and authorisations required to be obtained by Great Venture and the Purchaser in connection with the Great Venture Agreement and the transactions contemplated thereunder have been obtained; and

(4) the First View and Glennie Agreement becoming unconditional and not terminated.

Conditions (2) and (3) are waivable by the Purchaser while conditions (1) and (4) are not waivable as stated in the Great Venture Agreement.

We have reviewed the terms of the Great Venture Agreement. We are of the view that the terms of the Great Venture Agreement are on normal commercial terms and being on the same basis as those under the First View and Glennie Agreement. The arrangement of Post Completion Payment and the provision of Corporate Guarantee are not the commonly used terms in otherwise standard sale and purchase agreements. However, Post Completion Payment is in the interests of the Company and the provision of Corporate Guarantee, as discussed under the section of "Corporate Guarantee", is fair and reasonable so far as the Company and the Shareholders are concerned.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the sale and manufacture of novelties, festival decorations, packaging products, toy products and PVC film trading and plastic materials. The principal business of toys products is all carried out by PIML. The moulding business carried out by PIML is not regarded by the Directors as the core business of the Group currently.

The Company will acquire the remaining 41% equity interest of PIML through the Acquisition. Upon Completion, PIML will become an indirect wholly owned subsidiary of the Company.

Further to the Company's prior acquisition of 59% equity interest in PIML in December 2003, the Directors are of the view that the Company has been leveraging on PIML's customer base and capabilities in mould making and tooling and capitalizing on the resulting synergy and streamlining effect arising from centralization of procurement, human resources or other cost reduction measures which is expected to be in the final stage of implementation and the fact that the Company is being able to secure complete management control following the Acquisition, the improvement in the overall financial performance in 2004 in particular the gross profit margin, the business expansions plans and the future prospects of PIML. As PIML is expected to complete the final stage of the streamlining progress shortly, together with the anticipated expansion in injection mould manufacturing division, PIML is expected to attain solid growth and have a positive contribution to the Group as from the current financial year and in the long run.

The Directors believe that the Acquisition allows the Group to fully integrate the operation of PIML within the Group and also provides the Company with a stable income source to the Group with promising business potential while further enjoys cost benefits, operating efficiency and other synergy effect. In addition, the Acquisition will also better position the Company for solid expansion in the toys and mould-making sector to grasp business opportunities in the future.

The Acquisition of the remaining equity interest in PIML by the Group will enable the Group to capture 100% of the profit in PIML.

Below are the consolidated financial results of PIML for the two years ended 31 December 2003 and 2004:

	Unaudited accounts of PIML for the year ended 31 December 2003	**Audited accounts of PIML for the year ended 31 December 2004**
	HK$'000	*HK$'000*
Turnover		
– sales of goods	159,452	140,999
– sub-contracting service income	451	1,215
Profit before taxation and minority interests	3,558	4,971
Profit after taxation and minority interests	2,771	3,608
Total assets	71,210	60,117
Net asset value	19,124	22,732

The improvement in audited consolidated profit before and after taxation and minority interests of PIML for the year ended 31 December 2004, despite a slight decline in audited consolidated turnover as compared to that of 2003, was primarily attributable to successful implementation by the Group of the above measures and the improvement of performance from moulding business since the 2003 Acquisition. As a result, the Group may further enjoy cost benefits, operating efficiency and other synergy effect. The Directors confirmed that there was no exceptional item for the consolidated financial results of PIML for the two years ended 31 December 2003 and 31 December 2004.

Since the 2003 Acquisition, the Group has benefited from positive business synergies as a result of the following: (i) sharing common customer base between the Group and PIML in mould making business; and (ii) cost savings resulting from the centralization of PIML's raw materials procurement. Moreover, the Group has implemented a number of costs reduction and human resources streamlining measures with PIML. Furthermore, the Directors are devising further streamlining and business expansion plans for PIML.

We share the view of Directors that the Acquisition may allow the Group to fully integrate the operation of PIML within the Group upon securing complete management control of PIML which will help achieve further improvement of operating efficiency and better positioning of the Group for expansion in the toys and mould-making sector. Therefore, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Group will have 100% shareholding of PIML and thus will consolidate 100% of the net profits of PIML to the financial statements of the Group. The financial effects of the Sale and Purchase Agreements are summarized as follows:

Working capital and gearing

The Consideration will be fully financed by the internal resources of the Group. No debt financing, equity financing or asset disposal arrangement is prepared for the Acquisition. Therefore, there will be a net cash outflow in total of HK$17,083,000 after the completion of the Acquisition.

The working capital (expressed as the net position of the current assets and the current liabilities) of the Group was approximately HK$182,431,000 as at 31 December 2004. The working capital of the Group after the Acquisition would be reduced by a total amount of HK$17,083,000 which has and will be satisfied by the Group's existing cash reserves. As HK$8,541,500 has been paid as refundable deposits, the Directors confirmed that the Group's existing bank balances of more than HK$10,000,000 is sufficient to pay the Post Completion Payments.

According to the audited accounts of the Group as at 31 December 2004, the total liabilities and the net tangible assets were approximately HK$62,874,000 and approximately HK$277,886,000. To be discussed under the section of "Net tangible assets". The net tangible assets would be decrease after the Completion. Accordingly, the gearing (being total liabilities to the net tangible assets) would be increased.

The reduction of HK$17,083,000 represents approximately 9.4% of the working capital of the Group of approximately HK$182,431,000 as at 31 December 2004. The Directors confirmed that the Group at present has unutilized bank facilities of over HK$100,000,000, within which over HK$30,000,000 are available by means of overdraft or short term loans, for the Group's normal business engagements and daily operational expenses. We are of the view that the reduction of working capital and the increase of the gearing ratio from would have no material negative impact on the working capital position of the Group after the Completion. We share the view with the Directors that the while the Group's cash resources would be reduced, the Acquisition is an effective utilization of the Group's cash resources which is aimed to position the Group for better growth in the future which, in the long run, will benefit the Company and the Shareholders as a whole.

Earnings

For the year ended 31 December 2004, the Group recorded net profit after taxation and minority interests of approximately HK$22,590,000 which was a growth of approximately HK$4,497,000 over the net profit after taxation and minority interests of approximately HK$18,093,000 for the year ended 31 December 2003 (excluding the net profit contribution of approximately HK$82,000, being 59% of net profit of PIML for the period after the 2003 Acquisition and the year ended 31 December 2003). Among the profit growth of approximately HK$4,497,000, approximately 36.3% or approximately HK$1,632,000 was contributed from of the net profit after tax and minority interests of PIML for the year ended 31 December 2004 (being 59% of the net profit after minority interests of approximately HK$3,608,000 but excluding goodwill amortization of PIML of approximately HK$842,000 for the year ended 31 December 2004 resulting in approximately HK$2,766,000). Upon Completion, the Group will share 100% of the net earnings of PIML. The remaining 41% of the net profits of PIML, as result of the Acquisition, will be fully consolidated into the account of net profit after the minority interests of the Group.

We are of the view that the sharing of 100% of PIML will further strengthen the profitability in terms of net profit after the minority interests as well as earning per Share of the Group, since there is no issuance of any new Share under the Acquisition, and is in the interests of the Company and the Shareholders as a whole. There will be no accounting impact on the consolidated turnover, profit before tax, profit after taxation and before minority interests as PIML has already been a subsidiary of the Company and these figures have already been consolidated in the Group's accounts.

Net tangible assets

After completion of the Acquisition, a total amount of HK$17,083,000 would be paid to the Vendors in exchange for net tangible assets value of approximately HK$12,428,000 (being 41% the audited net tangible assets of PIML of approximately HK$30,311,000 at as 31 December 2004 based on the audited accounts of the PIML Group as at 31 December 2004). There will be a reduction of net tangible assets of approximately HK$4,655,000 and a corresponding increase in goodwill of approximately HK$4,655,000 of the Group after the completion of the Acquisition. The consideration paid to Vendors represents a premium of approximately 37.5% over the net tangible assets of PIML as at 31 December 2004 (being the consideration of HK$17,083,000 to the 41% of the audited net tangible assets of PIML of approximately HK$ 30,311,000 as at 31 December 2004). Accordingly, the amount of goodwill arising from the Acquisition will be approximately HK$4,655,000 upon Completion. In accordance with the current accounting policy of the Group, the goodwill arising from the Acquisition of approximately HK$4,655,000 (to be reflected upon Completion) will be amortized over 10 years and be charged to profit and loss accounts accordingly. Therefore, there would be an impact on the profitability of the Group due to the amortization of the goodwill arising from the Acquisition of approximately HK$465,500 per year.

The net tangible assets value of the Group was approximately HK$277,886,000 based on the audited accounts of the Group as at 31 December 2004. We are of the view that the decrease in net tangible assets of approximately HK$4,655,000 of the Group is justified after taking into account of that after the Acquisition (i) the remaining 41% of the net profit before the minority interests of PIML will be fully consolidated into the accounts of net profit after the minority interests of the Group; and (ii) the contribution of the 41% minority interests will continue should PIML maintains its profitability trend as in the period of 2003 and 2004. We share the view of the Directors that the Acquisition allows the Group to fully integrate the operation of PIML within the Group and also provides the Company with a stable income source to the Group with promising business potential while further enjoys cost benefits, operating efficiency and other synergy effect.

OPINION

The entering into the Sale and Purchase Agreements will have a slight negative impact on the working capital, the gearing ratio and the net tangible assets position of the Group. Taking into consideration of the above mentioned principal factors of:

1. allowing the Group to fully integrate the operation of PIML within the Group to further enjoy cost benefits, operating efficiency and other synergy effect, without worrying the interests and other opinion of the minority shareholders;

2. better positioning the Company for solid expansion in the toys and mould-making sector to grasp business opportunities in the future;

3. capturing 100% of the profit in PIML as a result of the Acquisition;

4. no significant negative impact on the financial position of the Group after the Acquisition;

5. the Purchaser, an indirect wholly owned subsidiary of the Company, does have the financial strength by itself to complete the Acquisition;

6. the Group will benefit from the Post Completion Payments, a deferred payment arrangement instead of payment upon completion, and

7. the terms of the Sale and Purchase Agreements are on normal commercial terms

we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole and the respective terms of the Sale and Purchase Agreements and the granting of Corporate Guarantees in relation to the Acquisition are fair and reasonable so far as the interests of the Company and the Shareholders are concerned.

RECOMMENDATION

We are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole and the respective terms of the Sale and Purchase Agreements and the granting of Corporate Guarantees in relation to the Acquisition are fair and reasonable so far as the interests of the Company and the Shareholders are concerned.

Written approval of the Sale and Purchase Agreement and the granting of Corporate Guarantees has been obtained from Mr. Poon, Mime and Nielsen, a closely allied group of Shareholders, holding an aggregate of 58.69% of the entire issued share capital of the Company which carry the same voting rights. Mr. Poon, Mime and Nielsen and their respective associates are not interested in the Acquisition other than Mr. Poon, Mime and Nielsen's indirect interest in the Company as Shareholders. As such, Mr. Poon, Mime and Nielsen are not required to abstain from voting.

Yours faithfully,
For and on behalf of
Menlo Capital Limited
Michael Leung
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

Director's interests in the Shares

As at the Latest Practicable Date, the interests and short positions of the Directors and their associates in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance ("SFO")) which had been 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 have taken or deemed to have under such provisions of the SFO); or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(A) Long positions in the Shares

Director	Capacity	No. of Shares held	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner	14,984,000		4.89
	Interest of spouse and controlled corporation	101,757,630	116,741,630 *(a)*	38.10
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200 *(b)*	20.59
Mr. Ip Siu On	Beneficial owner	6,803,600	6,803,600	2.22
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	3,411,000	3,411,000	1.11
Mr. Ng Siu Yu, Larry	Beneficial owner	880,000	880,000	0.29
Mr. Yip Chi Hung	Interest of controlled corporations	306,000	306,000 *(c)*	0.10

Notes:

(a) Mr. Poon Siu Chung was the beneficial owner of 14,984,000 Shares and he was also deemed to be interested in 101,757,630 Shares which were held through Mime and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kawi Ngor. Of these Shares, 618,200 Shares were held in trust for others.

(b) Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 Shares which were held through Nielsen and beneficially owned by Mr. Leung Ying Wai, Charles, his spouse, Ms. Tai Yee Foon and his family members.

(c) Mr. Yip Chi Hing was deemed to be interested in 306,000 Shares which were held through Asia Dynamic Assets Management Limited, a limited company incorporated in the British Virgin Islands ("BVI") and owned as to 75% by Mr. Yip Chi Hung.

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

Director	Name of associated corporation	Capacity	No. of shares held	Total	% of issued share capital of the associated corporation
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner	200		
		Interest of spouse	200	400 *(d)*	50
	Sunflower Garland Manufactory Limited	Beneficial owner	60,800		
		Interest of spouse	20,800	81,600 *(e)*	51
Mr. Leung Ying Wai, Charles	Perfectech International Limited	Interest of spouse	400	400 *(f)*	50
Mr. Ip Siu On	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18
Mr. Tsui Yan Lee, Benjamin	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18

Notes:

(d) Mr. Poon Siu Chung was the beneficial owner of 200 non-voting deferred shares ("Perfectech Shares") of HK$100 each in Perfectech International Limited, a subsidiary of the Company and was also deemed to be interested in 200 Perfectech Shares held by his spouse, Ms. Lau Kwai Ngor.

(e) Mr. Poon Siu Chung was the beneficial owner of 60,800 non-voting deferred shares ("Sunflower Shares") of HK$1 each in Sunflower Garland Manufactory Limited, a subsidiary of the Company and was also deemed to be interested in 20,800 Sunflower Shares held by his spouse, Ms. Lau Kwai Ngor.

(f) Mr. Leung Ying Wai, Charles was deemed to be interested in 400 Perfectech Shares held by his spouse, Ms. Tai Yee Foon.

Save as disclosed above and the nominee shares in certain subsidiaries held in trust for the Group, as at the Latest Practicable Date, none of the Directors and their associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which 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 in which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange.

Interest of substantial shareholders and other persons

Save for the interests disclosed above in the section "Directors' Interest in the Shares", as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), 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 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Long positions in shares of the Company

Shareholder	Capacity	No. of Shares held	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Interest of souse and controlled corporation	116,741,630 *(a)*	38.10
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200 *(b)*	20.59

Notes:

(a) Ms. Lau Kwai Ngor was deemed to be interested in 116,741,630 Shares held by her spouse, Mr. Poon Siu Chung. Mr. Poon Siu Chung was the beneficial owner of 14,984,000 Shares and he was deemed be to interested in 101,757,630 Shares held by Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor. Of these Shares, 618,200 Shares were held in trust for others.

(b) Ms. Tai Yee Foon was deemed to be interested in 63,097,200 Shares held by her spouse, Mr. Leung Ying Wai, Charles. Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 Shares held by Nielsen Limited, a limited company incorporated in Hong Kong and beneficially owned by Mr. Leung Ying Wai, Charles, his spouse, Ms. Tai Yee Foon and his family members.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), 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 member of the Group.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors of the Group or the management Shareholders (as defined in the Listing Rules) or their respective associates had any interest in a business which competes or may compete directly or indirectly with the business of the Group or any other conflicts of interests with the Group.

Save for the Acquisition, no contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted at the Latest Practicable Date.

None of the Directors or Menlo has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 December 2004, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and, as far as the Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened against any member of the Group.

5. CONSENT OF EXPERTS

As at the Latest Practicable Date, Menlo has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter(s) and/or references to its name in the form and context in which they respectively appear.

The following are the qualifications of the expert who has provided its advice and reports (as the case may be), which are contained in this circular

Name	Qualification
Menlo Capital Limited	a licensed corporation permitted to engage in type 6 of the regulated activities under the SFO

As at the Latest Practicable, Menlo is not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with the Company or any other member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

7. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2004, being the date to which the latest published audited financial statements of the Group was made up.

8. GENERAL

(a) The head office and principal place of business of the Company is at 3rd Floor, Perfectech Centre, 64 Wong Chuk Hang Road, Aberdeen, Hong Kong.

(b) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Standard Registrars Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong.

(d) The company secretary of the Company is Ms. Pang Siu Yin who is a practicing solicitor in Hong Kong and is a partner of Messrs. Cheung, Tong & Rosa.

(e) The qualified accountant of the Company is Mr. Yuen Che Wai, Victor ("Mr. Yuen"), who is the Group's financial controller. Mr. Yuen is a member of the Hong Kong Institute of Certified Public Accountant and the Association of Chartered Certified Accountants. Mr. Yuen holds a diploma in accounting from the Hong Kong Shue Yan College. He joined the Group in 1991 and has more than 10 years' experience in the audit and accounting field.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at 3rd Floor, Perfectech Centre, 64 Wong Chuk Hang Road, Aberdeen, Hong Kong during normal business hours on any weekday other than public holidays, from the date of this circular up to 27 June 2005:

(a) the Sale and Purchase Agreements;

(b) the letter from the Independent Board Committee, the text of which is set out on page 17 in this circular;

(c) the written consent of Menlo; and

(d) the letter of advice from Menlo to the Independent Board Committee and the independent Shareholders, the text of which is set out on pages 18 to 31 in this circular; and

(e) the sale and purchase agreement dated 9 December 2003 in relation to the 2003 Acquisition.