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

(the "Company")
(incorporated in Bermuda with limited liability)
(Stock Code: 765)

Announcement of unaudited interim results
For the six months ended 30th June, 2005

INTERIM RESULTS

The directors of the Company hereby announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2005 and the comparative figures in 2004 were as follow:–

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) For the six months ended 30th June,	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Turnover	*2 & 3*	**197,567**	194,262
Cost of sales		**(173,866)**	(157,127)
Gross profit		**23,701**	37,135
Other operating income	*4*	**3,935**	3,067
Distribution costs		**(9,805)**	(9,078)
Administrative expenses		**(21,334)**	(19,413)
Other operating expenses	*5*	**(1,355)**	(2,345)
Finance costs		**(429)**	(606)
(Loss) profit before taxation		**(5,287)**	8,760
Taxation	*7*	**(3)**	(1,169)
(Loss) profit after taxation		**(5,290)**	7,591
Attributable to:			
Shareholders of the Company		**(5,097)**	7,155
Minority interests		**(193)**	436
		(5,290)	7,591
Dividends	*8*	**13,788**	10,724
(Loss) earnings per share	*9*		
Basic		**(1.66) cents**	2.36 cents
Diluted		**(1.66) cents**	2.36 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	(Unaudited) 30th June, 2005 *HK$'000*	(Audited) 31st December, 2004 *HK$'000*
NON-CURRENT ASSETS		
Goodwill	**6,256**	321
Investment properties	**4,300**	4,300
Property, plant and equipment	**91,866**	92,502
Long term prepayment	**404**	441
Deferred Taxation Asset	**1,027**	860
	103,853	98,424
CURRENT ASSETS		
Inventories	**140,501**	99,420
Trade and other receivables	**104,810**	90,900
Investment in securities	**13,346**	12,375
Amount due from a minority shareholder of a subsidiary	**200**	200
Taxation recoverable	**–**	610
Pledged bank deposits	**10,470**	21,264
Bank balances and cash	**18,312**	17,888
	287,639	242,657
CURRENT LIABILITIES		
Trade and other payables	**72,851**	52,892
Obligations under a finance lease – due within one year	**200**	195
Unsecured bank borrowings	**53,115**	5,756
Taxation liabilities	**301**	1,383
	126,467	60,226
NET CURRENT ASSETS	**161,172**	182,431
TOTAL ASSETS LESS CURRENT LIABILITIES	**265,025**	280,855
CAPITAL AND RESERVES		
Share capital	**30,930**	30,640
Reserves	**214,637**	230,097
Equity attributable to equity shareholders of the parent	**245,567**	260,737
Minority interests	**5,515**	17,470
TOTAL EQUITY	**251,082**	278,207
NON CURRENT LIABILITIES		
Obligations under a finance lease – due after one year	**34**	135
Deferred tax liabilities	**2,409**	2,513
Unsecured bank borrowings	**11,500**	–
	13,943	2,648
	265,025	280,855

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2004 except as described below:

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business Combinations

In the current period, the Group has applied HKFRS 3, Business Combinations, which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually/in the financial year in which the acquisition takes place.

Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Share-based Payments

In the current period, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005.

In relation to share options granted before 1st January, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st January, 2005 in accordance with the relevant transitional provisions.

Financial Instruments

In the current period, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any).

From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. No adjustment to retained earnings at 1st January, 2005 was made.

2. BUSINESS SEGMENTS

For management purposes, the Group's business is currently divided into four segments, namely manufacture and sale of novelties and decorations, manufacture and sale of packaging products, trading of PVC films and plastic materials and manufacture and sale of toys products forming the basis of the Group's business segments reporting.

For the six months ended 30th June, 2005

	(Unaudited)					
	Novelties and decorations *HK$'000*	**Packaging products** *HK$'000*	**PVC films and plastic materials** *HK$'000*	**Toys** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER						
External sales	**25,687**	**67,946**	**59,774**	**44,160**	**–**	**197,567**
Inter-segment sales	**397**	**8,652**	**2,139**	**1,936**	**(13,124)**	**–**
Total revenue	**26,084**	**76,598**	**61,913**	**46,096**	**(13,124)**	**197,567**
RESULT						
Segment results	**(2,572)**	**(821)**	**1,063**	**(813)**	**(956)**	**(4,099)**
Profit from investments						**578**
Unallocated corporate expenses						**(1,337)**
Loss from operations						**(4,858)**
Finance costs						**(429)**
Loss before taxation						**(5,287)**
Taxation						**(3)**
Loss after taxation						**(5,290)**

For the six months ended 30th June, 2004

	(Unaudited)					
	Novelties and decorations	Packaging products	PVC films and plastic materials	Toys	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	33,271	65,864	35,699	59,428	–	194,262
Inter-segment sales	42	11,237	1,127	–	(12,406)	–
Total revenue	33,313	77,101	36,826	59,428	(12,406)	194,262
RESULT						
Segment results	5,734	4,894	1,243	682	(961)	11,592
Loss from investments						(1,696)
Unallocated corporate expenses						(530)
Profit from operations						9,366
Finance costs						(606)
Profit before taxation						8,760
Taxation						(1,169)
Profit after taxation						7,591

3. GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's sales by geographical segments:

	(Unaudited) Turnover For the six months ended 30th June,	
	2005	2004
	HK$'000	*HK$'000*
By geographical market:		
Hong Kong	**135,544**	104,972
Europe	**13,036**	28,955
America	**17,843**	44,575
Asia (other than Hong Kong)	**27,912**	14,707
Others	**3,232**	1,053
	197,567	194,262

4. OTHER OPERATING INCOME

	(Unaudited) For the six months ended 30th June, 2005 HK$'000	2004 HK$'000
Rental income	**242**	313
Interest income	**322**	1,011
Dividend income	**175**	205
Exchange gain	**–**	698
Gain on disposal of trading securities	**1,720**	–
Gain on disposal of other securities	**37**	3
Gain on disposal of fixed assets	**103**	–
Others	**1,336**	837
	3,935	3,067

5. OTHER OPERATING EXPENSES

	(Unaudited) For the six months ended 30th June, 2005 HK$'000	2004 HK$'000
Unrealised loss on trading securities	**1,322**	924
Loss on disposal of trading securities	–	1,421
Exchange loss	**33**	–
	1,355	2,345

6. (LOSS) PROFIT FROM OPERATIONS

(Loss) profit from operations was stated after charging depreciation of HK$10,207,000 (2004: HK$10,012,000) and amortisation of goodwill of HK$ NIL (2004: HK$53,000).

7. TAXATION

	(Unaudited) For the six months ended 30th June, 2005 HK$'000	2004 HK$'000
Tax charge comprises:		
Hong Kong Profits tax		
Current year	**274**	22
Deferred taxation	**(271)**	1,147
	3	1,169

Hong Kong Profits tax is stated at 17.5% (2004: 17.5%) of the estimated assessable profits for the period.

8. DIVIDENDS

	(Unaudited) For the six months ended 30th June,	
	2005	2004
	HK$'000	*HK$'000*
Final paid:		
4.5 cents per share for 2004 (2004: 3.5 cents per share for 2003)	**13,788**	10,724

The directors have resolved to declare an interim dividend of 0.5 cent (2004: 1 cent) per share.

9. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the loss for the period of approximately HK$5,097,000 (2004: profit of HK$7,155,000) and the following data:

	(Unaudited) For the six months ended 30th June,	
	2005	2004
Weighted average number of ordinary shares for the purposes of basic earnings per share	**306,621,497**	303,012,596
Effect of dilutive potential ordinary shares:		
Share options	**1,072,381**	523,381
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**307,693,878**	303,535,977

INTERIM DIVIDEND

The directors have resolved to declare an interim dividend for the six months ended 30th June, 2005 of 0.5 cent per share (2004: 1 cent) payable on or about 3rd November, 2005 to shareholders on the register of members of the Company (the "Register of Members") on 26th October, 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 25th October, 2005 to 26th October, 2005, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed interim dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 24th October, 2005.

BUSINESS REVIEW

Core businesses

During the period, the total turnover of the Group slightly increased by about 2% to approximately HK$197,567,000, and recorded a loss for the period of approximately HK$5,097,000.

Due to keen competition in various business segments of the Group, the Group encountered a very tough period for the first half of the year 2005. The ever increasing price of petroleum, which is a major raw material of the Group's products, has made the Group even harder to improve the profit margin of the business. Further, the annual increase in the minimum wages in the PRC has increased pressure on the Group to raises the wages of its PRC employees. As a result, there was an increase of approximately 20% in labour costs.

In addition, following the implementation of the new accounting rules, share options granted to eligible participants represented an expense of approximately of HK$1,956,000 recognised by the Group.

The turnover of the novelties and decoration segment dropped by about 23%, and thus recorded a loss of approximately HK$2,572,000. The decrease in the turnover of the segment was mainly due to the further delay of shipment of finished goods as requested by customers. As a result, fixed costs incurred in the first half of the year cut the profit out.

The turnover in the packaging segment remained steady. However, due to keen competition profit margin dropped and as a result the segment recorded a loss of approximately of HK$821,000. Despite that, it is still the Group's strategy to maintain its leading position in the supply of packaging products.

The price of oil and petroleum has recently increased substantially and the price for both PVC film and plastic materials stand at a high level. The segment always faces with keen competition and low profit margins, since the ultimate customers of consumer products always request a very low price for their consumption. However, despite the adverse factors mentioned above, the segment recorded a growth of approximately 67% in turnover and made a contribution of approximately HK$1,063,000 to the Group.

In June 2005, the Group completed the acquisition of the remaining interests of 41% of the holding company of the toys segment, Perfectech International Manufacturing Limited ("PIML"). Since then, PIML became the wholly owned subsidiary of the Group. For the details of the acquisition, please refer to the Company's announcement dated 6th May, 2005. Due to time and effort required for consolidation of the business after taking over the turnover of the segment dropped by approximately 26%, and the segment recorded a loss of approximately HK$813,000.

To the Group, the finance cost amounted to approximately HK$429,000 (2004: HK$606,000). Utilisation of banking facilities enhance the Group a better way of utilisation of its funds.

Investments

To well utilize the available cash on hand, the Group has invested in the securities of several unlisted companies in different industries as long-term investment. As at 30th June, 2005, the total investment therein was approximately HK$1,006,000 (31st December, 2004: HK$2,239,000). All of these investments were held in convertible notes or preferred shares, which provided a regular income for the Group.

Investment in listed securities is held for short-term purposes for capital gain in the value of the securities. As at the balance sheet date, the market value of investment in securities was approximately HK$12,340,000 (31st December, 2004: HK$10,136,000).

As at 30th June, 2005, the Group carried outstanding forward contracts which entailed a commitment for purchase of listed securities of notional amount of approximately HK$49,016,000 (31st December, 2004: HK$64,300,000). The commitment will be settled monthly with an amount ranging from HK$4 million to HK$8 million. Usually the securities acquired will be disposed shortly, so the commitment is not expected to have a material adverse impact on cash flow.

FUTURE PLAN AND PROSPECT

After the completion of the acquisition of the remaining interests of the toys segment in June 2005, the Group currently further consolidate the four core businesses in order to enhance the synergy effects arising therefrom.

In view of the present unclear global and local economic atmospheres, the ever increasing price of petroleum and the keen competition the Group faces, the improvement of financial performance of the Group in the second half of the year 2005 remains a challenge to the Group.

Liquidity and financial resources

As at 30th June, 2005, the long-term finance lease obligations and bank borrowings of the Group were approximately HK$11,534,000 (31st December, 2004: HK$135,000), while the short term bank borrowings were approximately HK$53,315,000 (31st December, 2004: HK$5,951,000), and the net book value of the Group's plant and machinery of approximately HK$355,000 (31st December, 2004: HK$412,000) was held under a finance lease. The gearing ratio, measured by total bank and other borrowings divided by equity, of the Group was approximately 26.41% (31st December, 2004: 2.33%).

Pledge of Assets

At 30th June, 2005, the following assets were pledged to secure the margin loan facilities granted to the Group:

(i) Investments in securities with a carrying value of approximately of HK$2,539,000 (31st December, 2004: HK$1,527,000); and

(ii) Bank balances and cash of approximately HK$10,470,000 (31st December, 2004: HK$21,264,000).

No margin loan facilities (31st December, 2004: HK$1,371,000) was utilised by the Group at the balance sheet date.

Employees and remuneration policies

As at 30th June, 2005, the Group employed approximately 6,000 full time employees. The Group remunerates its employees by reference to the prevailing industry practice as well as individual merits. The Group has also adopted a share option scheme for its full time employees.

Foreign currency exposure

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar, with some in Reminbi and Euro Dollar. Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exchange risk exposure in this regard.

As for currencies other than Hong Kong Dollar, the Group will closely monitor their movement trends in relation to US Dollar and will engage in exchange rate hedges when necessary.

At 30th June, 2005, the Group did not use any financial instrument for hedging purposes.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

CORPORATE GOVERNANCE

The Company has adopted throughout the period ended 30th June, 2005 with the Code of Corporate Governance Practices ("Code Provisions") set out in the Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

During the period, the Company had compiled with the Code Provisions except for the following deviations:

Code A.2.1

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Poon Siu Chung is the Chairman and Chief Executive of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Poon and believe that having Mr. Poon performing the roles of Chairman and Chief Executive is beneficial to the business prospects of the Company.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding Directors' securities transactions on terms not less exacting than the required standard set out in Appendix 10 of the Listing Rules ("Model Code").

After specific enquiry made by the Company, all of the Directors confirmed that they had compiled with the required standard set out in the Model Code and the code of conduct regarding Directors, securities transactions during the six months ended 30th June, 2005.

AUDIT COMMITTEE

The Company has established an audit committee which comprises Mr. Tong Wui Tung, the non-executive Director and Mr. Yip Chi Hung, Mr. Lam Yat Cheong and Mr. Ng Siu Yu, Larry, the independent non-executive Directors. Mr. Ng Siu Yu, Larry is the chairman of the audit committee.

The audit committee has reviewed and discussed with management the accounting principles and practices adopted by the Group, auditing internal controls and financial reporting matters including the unaudited condensed consolidated interim financial statements for the six months ended 30th June, 2005 of the Company now reported on.

PUBLICATION OF INTERIM REPORT

The 2005 Interim Report of the Company will be dispatched to the shareholders of the Company as well as published on the website of the Stock Exchange in due course.

DIRECTORS OF THE COMPANY

As at the date of this announcement, Mr. Poon Siu Chung, Mr. Leung Ying Wai, Charles, Mr. Ip Siu On and Mr. Tsui Yan Lee, Benjamin are the executive directors of the Company, Mr. Ng Siu Yu, Larry, Mr. Yip Chi Hung, and Mr. Lam Yat Cheong are the independent non-executive directors of the Company, and Mr. Tong Wui Tung is the non-executive director of the Company.

On behalf of the Board
Poon Siu Chung
Chairman & Managing Director

Hong Kong, 22nd September, 2005

* *For identification only*

Please also refer to the published version of this announcement in The Standard.