

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

From accounting periods commencing on or after 1 January 2005, listed companies in Hong Kong are required to comply with the code provisions (the "Code Provisions") set out in the "Code on Corporate Governance Practices" (the "Code") issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), with one exception regarding the code on internal controls, which comes into effect for accounting periods commencing on or after 1 July 2005. Meanwhile, the rules on the Corporate Governance Report are found in a new Appendix 23 of the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules").

Throughout the year ended 31 December 2005, the Company has adopted the Code and has complied with the Code Provisions, save for the following deviation.

Code Provision A.2.1

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

While the Company does not have the position of chief executive officer, the responsibilities normally assumed by such a role is taken up by the Managing Director. Mr. Poon Siu Chung is the Chairman and Managing Director 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 calibre individuals who meet regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conducive 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 believes that having Mr. Poon performing the roles of Chairman and Managing Director is beneficial to the business prospects of the Company.

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THE BOARD OF DIRECTORS

The Role of the Board

The Board is responsible for formulating strategies and business plans for the Group, and is collectively responsible for its success.

The types of decisions taken out by the Board include:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies.

The Board has delegated decisions in relation to daily operation and administration responsibilities to management under the supervision of the Managing Director.

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Board Composition

The Board comprises 8 Directors, 4 of whom are Executive Directors, 1 being a Non-Executive Director (“NED”) and 3 being Independent Non-Executive Directors (“INEDs”). All Directors served for the full year of 2005. For the biographies of the Directors, please refer to this Annual Report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

As explained earlier, both the roles of the Chairman and Managing Director are taken up by Mr. Poon Siu Chung.

The NED and INEDs of the Company are professionals in different fields, and two of the INEDs have appropriate professional qualifications of accounting or related financial management expertise. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders and the Group as a whole.

Pursuant to Listing Rule 3.13, the Group has received a written confirmation from the INEDs of their independent status, and the Board considers that they are independent.

Board Process

In addition to Board meetings that are held regularly to discuss and approve the Group’s results, additional Board meetings are held from time to time to discuss important matters that require the Board’s attention and decision. In 2005, there were 20 Board meetings held, and the attendance of the Directors is set out below:

Directors	Attendance	
	Regular Board Meeting	Special Board Meeting
<i>Executive Directors</i>		
Poon Siu Chung (<i>Chairman</i>)	4/4	16/16
Ip Siu On	4/4	13/16
Tsui Yan Lee, Benjamin	4/4	11/16
Leung Ying Wai	2/4	1/16
<i>Non-Executive Director</i>		
Tong Wui Tung	3/4	2/16
<i>Independent Non-Executive Directors</i>		
Ng Siu Yu	4/4	2/16
Yip Chi Hung	4/4	2/16
Lam Yat Cheong	4/4	2/16

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Regular Board meetings are attended to by a majority of the Directors in person or through other electronic means of communication.

Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major matters that require the Board's attention or decision. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive Directors attend.

The Chairman of the Board ensures that the Board works effectively and that all important issues are discussed in a timely manner. All Directors are supplied with Board papers and relevant materials within a period of time acceptable to members of the Board prior to every Board meeting. All Directors have access to the Company Secretary for advice on compliance matters, and they have access to management for enquiries and to obtain information. If necessary, they may also take independent professional advice at the expense of the Group.

Nomination, Appointment and Re-election of Directors

The Board has not established a Nomination Committee, and the Board itself is responsible for the selection and approval of new Directors. The Board adopts the procedure and criteria below for nomination of Directors:

Procedure for Nomination of Directors

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

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Criteria for Nomination of Directors

1. Common Criteria for All Directors

- (a) Character and integrity
- (b) The willingness to assume broad fiduciary responsibility
- (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
- (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company
- (e) Significant business or public experience relevant and beneficial to the Board and the Company
- (f) Breadth of knowledge about issues affecting the Company
- (g) Ability to objectively analyse complex business problems and exercise sound business judgment
- (h) Ability and willingness to contribute special competencies to Board activities
- (i) Fit with the Company's culture

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2. Criteria Applicable to NEDs/INEDs

- (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings
- (b) Accomplishments of the candidate in his or her field
- (c) Outstanding professional and personal reputation
- (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

In 2005, there had not been any vacancy to fill within the Board, and the Board did not engage in any work in relation to the appointment or removal of Directors.

A Director appointed by the Board to fill a casual vacancy can hold office only until the next annual general meeting ("AGM") after the appointment, by when he will be subject to election by shareholders. Every Director shall be subject to retirement by rotation at the annual general meeting at least once every three years.

In the last AGM held on 10 May 2005, all the NED and INEDs were elected to hold office for a specific term of approximately one year until the next AGM, subject to re-election by shareholders.

Directors' Securities Transactions

The Company has adopted a code of conduct governing the Directors' transactions in securities of the Group on no less exacting terms than the standard set out in Appendix 10 of the Listing Rules (the "Model Code").

Following specific enquiry by the Group, all Directors have confirmed that throughout year 2005 they complied with the required standard set out in the Model Code for securities transactions.

The Directors' interests in shares of the Group as at 31 December 2005 are set out in this Annual Report.

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REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee

The Remuneration Committee makes recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management.

The Committee comprises Mr. Tong Wui Tung as an NED, Mr. Lam Yat Cheong, Mr. Yip Chi Hung, who is also the chairman of the Committee, and Mr. Ng Siu Yu as INEDs, Mr. Poon Siu Chung as an Executive Director, and Mr. Yuen Che Wai, Victor, the Financial Controller of the Company.

The Committee is governed by its terms of reference, which are available at the Company's website <http://www.perfectech.com.hk>.

During 2005, the Committee met once and discussed the following matters:

- various aspects of the remuneration of the Executive Directors and senior management; and
- the amount of remuneration that Executive Director Mr. Leung Ying Wai would receive for the financial year commencing from 1 January 2005.

Details of the members' attendance at the Remuneration Committee meeting in 2005 are as follows:

Members	Attendance
Poon Siu Chung	1/1
Ng Siu Yu	1/1
Lam Yat Cheong	1/1
Yip Chi Hung	1/1
Tong Wui Tung	1/1
Yuen Che Wai	1/1

Emolument Policy and Long-Term Incentive Plan

The Company adopts different emolument policies for Executive Directors and NEDs:

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Emolument Policy for Executive Directors (“EDs”)

1. A proportion of EDs’ remuneration should be structured so as to link rewards to corporate and individual performance.
2. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of EDs.
3. The performance-related elements of remuneration should be designed to align the EDs’ interests with those of shareholders and to give these Directors keen incentives to perform at the highest levels.
4. Factors for Defining Performance-Based Remuneration:
 - 4.1. Eligibility for annual bonuses and any upper limits
 - 4.2. Annual bonuses should be linked to relevant performance indicators designed to enhance the Company’s business
 - 4.3. Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company’s performance
 - 4.4. Examples of performance indicators:
 - (a) share price
 - (b) net earnings figure

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Emolument Policy for NEDs

1. Levels of emolument of NEDs should reflect the time commitment and responsibilities of the role.
2. NEDs should have the opportunity to take part of their remuneration in shares but share options should be granted in accordance with the Listing Rules.

Principles of Long-Term Incentive Schemes

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.
2. The link between executive reward and company performance should be strong and clear.
3. Grants under such schemes should be phased rather than awarded in one large block.

The emolument payable to the Directors is determined with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar positions. The details of the fees and any other reimbursement or emolument payable to the Directors are set out in details in this Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for the integrity of the financial information of the Group. The Directors acknowledge their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

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Audit Committee

The Audit Committee usually meets twice a year to review and monitor the financial reporting and internal control procedures of the Company.

The Audit Committee is governed by its terms of reference, which are available at the Group's website <http://www.perfectech.com.hk>.

The Audit Committee comprises 4 members, namely Mr. Ng Siu Yu, who is also the chairman of the Committee, Mr. Lam Yat Cheong and Mr. Yip Chi Hung, who are INEDs, and Mr. Tong Wui Tung, who is an NED. Both Mr. Lam and Mr. Ng have professional qualifications in accounting.

The details of the members' attendance in Committee meetings in 2005 are as follows:

Members	Attendance
Ng Siu Yu	2/2
Lam Yat Cheong	2/2
Yip Chi Hung	2/2
Tong Wui Tung	2/2

Other attendees at the Audit Committee meetings include the Financial Controller and the external auditors, for discussion of the audit of the annual results only.

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The Audit Committee's work in 2005 includes consideration of the following matters:

- the completeness and accuracy of the 2004 annual and 2005 interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the management letter submitted by the external auditors summarizing matters arising from their audit of the Group for year 2004;
- detailed analysis of various aspects of the Company's financial performance, including:
 - investment policies and possible impact of certain investment transactions;
 - timing of collection of accounts receivable and provisions for doubtful debts;
 - follow-up on the issuance of title/ownership certificates for certain real properties owned by the Group in the PRC;
 - the mode of operation of the toys business;
 - the action plan for turning around the Group's loss in the 1st half of 2005.

External Auditors

The Group's external auditor is Deloitte Touche Tohmatsu. During 2005, the Group did not engage Deloitte Touche Tohmatsu in any non-audit services, and paid Deloitte Touche Tohmatsu approximately HK\$1,182,000.00 for its audit services.

The Audit Committee has recommended to the Board to re-appoint Deloitte Touche Tohmatsu for conducting statutory audits for the Group for the financial year of 2006, which the Board has agreed. This is subject to approval and authorization by the shareholders at the 2006 AGM.

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CORPORATE COMMUNICATION

The Group values and strives to provide comprehensive and timely communications to its stakeholders, including its shareholders.

Shareholders' Rights

Further to the Companies Act 1981 of Bermuda and the Company's Bye-Laws, a special general meeting ("SGM") can be convened on requisition.

The most recent shareholders' meeting was the AGM held on 10 May 2005 at the Ritz-Carlton Hotel in Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated audited financial statements and reports for the Directors and auditors for the year ended 31 December 2004;
- declaring the final dividend;
- re-electing certain Directors and authorizing the Board to fix their remunerations;
- re-appointing auditors and authorizing the Board to fix their remunerations;
- passing a general mandate to allow the Directors to allot and issue shares of the Company;
- passing a general mandate to allow the Directors to repurchase shares of the Company; and
- amending the Bye-Laws of the Company;

Change in the Company's Bye-Laws

During 2005, there was one change to the Company's Bye-Laws. Bye-Law 99 regarding the rotation of Directors has been amended so that all Directors, including those appointed for a specific term, shall be subject to retirement by rotation at the annual general meeting at least once every three years, pursuant to the requirement under the Code, and the retiring Directors shall be eligible for re-election.