Yuxing InfoTech Holdings Limited

裕興科技控股有限公司*

(incorporated in Bermuda with limited liability)

Stock Code : 8005

Annual Report 2005

* for identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Corporate Profile

Yuxing InfoTech Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") commenced its business through Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing") which was established in the People's Republic of China (other than Hong Kong) (the "PRC") in 1996. Golden Yuxing became a Sino-foreign co-operative joint venture enterprise on 8th November 1999. Through reorganisation, the Company has become the ultimate holding company of the Group. The Company was incorporated in Bermuda as an exempted company on 6th October 1999 and was listed on GEM on 31st January 2000. It successfully raised gross proceeds of approximately HK$420 million.

As a result of the continuous introduction of new products and expansion on range of educational application software to complement sales of hardware, the Group has experienced rapid growth since its establishment.

The Group is principally engaged in research and development, design, manufacturing, marketing and sale of information appliances in the PRC and Hong Kong. Through a network of sales agents in the PRC, the Group sells VCD/DVD players, information appliances and e-learning products under "Yuxing" brandname.

Furthermore, the Group involves in electronic components distribution business by acting as a distributor for different lines of electronic products. In this way, the Group can expand its product lines through developing advance electronic products in the information appliances industry.

Besides its comprehensive sales network, the Group has established a strong team of research and development professionals, including experienced experts in hardware and software, digital devices, media display and network technology, as well as professionals from the games production and educational application software industries. Under the leading by the Group's professional management team, our products have obtained high reputation in the PRC's market.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zhu Wei Sha *(Chairman)*
Chen Fu Rong *(Deputy Chairman)*
Shi Guang Rong
Wang An Zhong

Independent Non-executive Directors

Wu Jia Jun
Zhong Peng Rong
Shen Yan

COMPANY SECRETARIES

Di Yu Zeng
Chan Sau Mui Juanna *ACS, ACIS*

QUALIFIED ACCOUNTANT

Wu Wai Ting, Wendy
Certified Practising Accountant of CPA Australia
Member of Hong Kong Institute of Certified Public Accountants

COMPLIANCE OFFICER

Shi Guang Rong

AUTHORISED REPRESENTATIVES

Chen Fu Rong
Shi Guang Rong

AUDIT COMMITTEE

Shen Yan *(Chairman)*
Zhong Peng Rong
Wu Jia Jun

REMUNERATION COMMITTEE

Sun Li Jun *(Chairman)*
Wang An Zhong
Wu Jia Jun
Zhong Peng Rong
Shen Yan

AUDITORS

CCIF CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

China Merchants Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of China
Shanghai Commercial Bank Limited
Shanghai Pudong Development Bank
The Agricultural Bank of China

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11, Bermuda

PLACES OF BUSINESS

Hong Kong
Unit 1808, 18th Floor
Tower III, Enterprise Square
9 Sheung Yuet Road
Kowloon Bay, Kowloon

The PRC
9-10/F, Tian Cheng Technology Building
No. 2, Xinfeng Street, De Shen Men Wai
Beijing

7/F, Block A, Tsing Hua Hi-Tech Park
Kayuan North Road
Shenzhen Hi-Tech Industrial Park
Shenzhen

SHARE REGISTRARS AND TRANSFER OFFICES

Principal registrar
The Bank of Bermuda Limited
6 Front Street
Hamilton HM11, Bermuda

Branch registrar
Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

STOCK CODE

8005

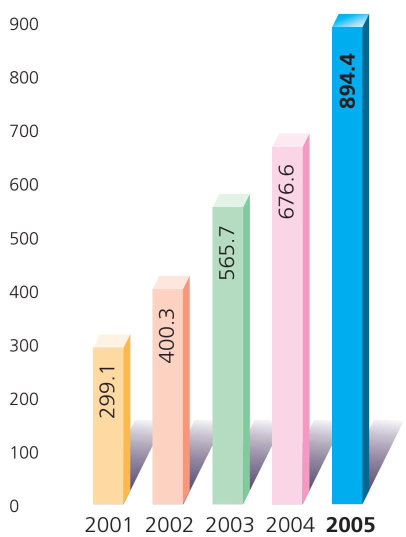
Financial Highlights and Calendar

FINANCIAL HIGHLIGHTS

	2005 **HK$'000**	2004 HK$'000
Revenue		
Turnover	**894,393**	676,568
Profitability		
Profit/(loss) from operations	**88,471**	(123,468)
Net profit/(loss) for the year	**68,320**	(139,795)
Net worth		
Shareholders' funds	**395,740**	322,346
Per share		
Earning/(loss) per share attributable to equity holders of parent – Basic	**17.08 cents**	(34.95) cents
Net assets per share	**98.9 cents**	80.6 cents

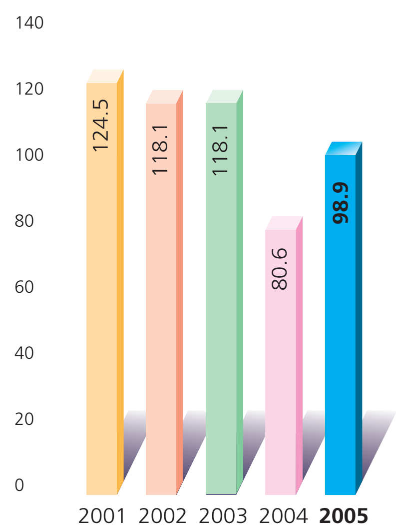
TURNOVER

HK$ million



NET ASSETS PER SHARE

HK cents



FINANCIAL CALENDAR

Results for the year	Announcement on 22nd March 2006
Annual report	Despatched to shareholders in late March 2006
Annual general meeting	26th May 2006

Chairman's Statement

Sheng Bang Qiang Dian Electronics (Zhong Shan) Co., Ltd.

Although the shares of the Company are still being suspended from trading on GEM, the Company has made great efforts in liaising and negotiating with the Stock Exchange for resumption of trading. As described in the Company's previous annual report, the suspension was requested by the Company as one of the Company's wholly-owned subsidiaries entered into a very substantial acquisition agreement on 10th August 2004 to make an investment which qualified as a very substantial transaction according to the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") and required prior approval in a general meeting from the shareholders of the Company. Although the Company may have breached the GEM Listing Rules, it is the Company's intention to seek ratification from the shareholders of the Company concerning this particular investment.

Furthermore, the Company has begun to improve its overall corporate governance with greater involvement and participation from the independent non-executive directors of the Company ("Independent Non-executive Directors"). The directors of the Company (the "Directors") currently are also making various plans in order to further strengthen its compliance procedures such as provision of training to Directors and senior employees, preparation of a compliance manual, formation of an executive committee to oversee major transactions, and conducting compliance assessment by the Company's auditors.

As to the Company's major investment in Ping An Insurance (Group) Company of China Limited ("Ping An Insurance"), the Company's senior management has actively negotiating with Shenzhen Jiangnan Industrial Development Co., Ltd. ("JI") to restructure the whole transaction in order to ensure that the value of this investment can be properly reflected in the Company's annual accounts and the benefits can be enjoyed by the Company and its shareholders. In addition, with the PRC government commencing restructuring the non-tradable shares, the potential of this investment has been significantly boosted.

Despite the above issue, the Company's overall operational performance had received little negative impact as the Group's overall turnover recorded another outstanding growth of 32.2% reaching HK$894.4 million. Net Profit of approximately HK$68.3 million for the year was recorded by the Group, representing a significant improvement in a net loss of approximately HK$139.8 million for last year. The Group's performance improved significantly because it was released from its obligation to repay two bank loans and the interests thereon in aggregate of approximately HK$63.3 million and there was a revaluation gain of approximately HK$13.2 million in Hong Kong properties.

The strong operating performance of the Group continues to be derived from its two star divisions namely the Integrated Circuits ("IC") division and the Information Appliance ("IA") division which have experienced strong double digit growth in terms of revenue. The significant increase in the IA division is due to the excellent demand for the Group's Internet Protocol Television ("IPTV") and Video-on-demand ("VOD") set-top boxes from the Group's existing customer base in Hong Kong and Japan. The Group is expecting that the two divisions will continue to prosper in the years to come and as such, is intending to make more resources available to these two divisions in order for the two divisions to expand to their fullest potential. However, the Group does not role out the possibility of disposing the IC division in order to focus more resources on the other one.

On the other hand, the Audio-Visual ("AV") division, primarily focuses on the domestic distribution market, has reduced its scale significantly and after a successful reorganization, the division has incurred little expenses. However, as the Group's brand name "Yuxing" still carries certain value in the PRC consumer market, the AV division is currently negotiating with various parties and exploring various joint projects in anticipation of harvesting returns based on the brand name in which the Group has invested over the years. It is my expectation that these projects will incur very little initial investment outlay and expenses but with the potential of great returns in the long run.

The OEM/Optical Components ("OEM") division incurred a huge loss, which was mainly caused by various costs associated with the project of manufacturing optical pick-up units. Despite the issues incurred in the running of this new business, the new manufacturing facility located in Zhongshan, Guangdong Province has begun to see certain improvements. Furthermore, the OEM division has also expanded into several new product lines which included Digital Video Broadcasting ("DVB") equipments and portal media players with certain initial success. It is my expectation that the OEM division will have significant improvement in the coming years.

Looking forward, with the outstanding performances of the IC and IA divisions and diminishing losses at the OEM division, I am expecting another great year for the Group in 2006.

Group Financial Summary

CONSOLIDATED RESULTS

For the year ended 31st December

	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**894,393**	676,568	565,726	400,296	299,121
Profit/(loss) before taxation	**79,573**	(133,330)	2,321	(24,093)	(75,077)
Taxation	**(4,271)**	(2,030)	(699)	(507)	(349)
Net profit/(loss) for the year	**75,302**	(135,360)	1,622	(24,600)	(75,426)
Minority interests	**(6,982)**	(4,435)	(1,399)	(997)	(807)
Net profit/(loss) for the year attributable to equity holders of the parent	**68,320**	(139,795)	223	(25,597)	(76,233)

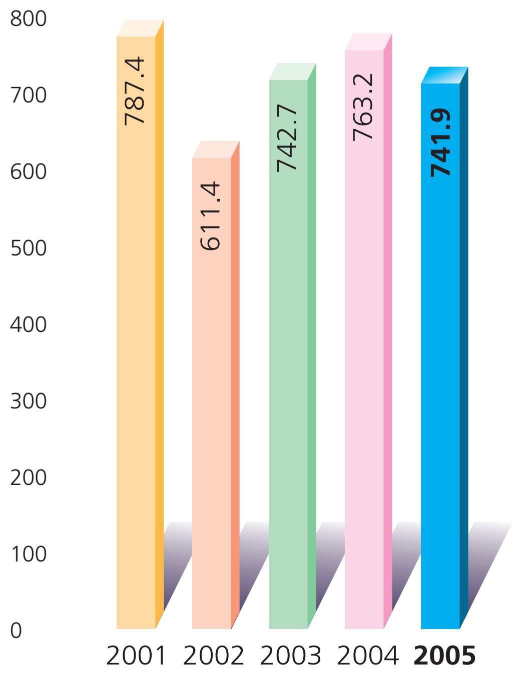
CONSOLIDATED ASSETS AND LIABILITIES

As at 31st December

	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**741,925**	763,229	742,728	611,359	787,414
Total liabilities	**(326,259)**	(427,357)	(261,149)	(132,819)	(283,864)
Minority interests	**(19,926)**	(13,526)	(9,091)	(6,320)	(5,707)
Total equity attributable to equity holders of the parent	**395,740**	322,346	472,488	472,220	497,843

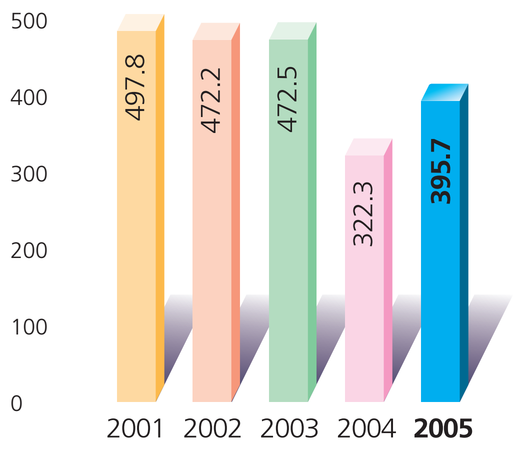
TOTAL ASSETS

HK$ million



NET ASSETS

HK$ million



Management Discussion and Analysis

FINANCIAL REVIEW

Turnover and Gross Profit

The Group recorded another strong year in 2005 with turnover increased by 32.2% to approximately HK$894.4 million. The excellent increase in turnover mainly comes from the contribution of the Group's IC division. Furthermore, the increase in demand for the Group's higher-value added products, mainly from the IA division has further boosted the gross margin from 6.0% in the previous fiscal year to 8.0% in 2005. This in combination with the increase in turnover has significantly increased the overall gross profit to approximately HK$71.8 million in 2005 from approximately HK$40.5 million as compared to last year.

Operating Results

Other Operating Income

As one of the Group's investments declared dividends of approximately RMB7.1 million to the Group during the year 2005, other operating income increased to approximately HK$16.6 million for the year ended 31st December 2005 (2004: approximately HK$15.2 million).

Operating Expenses

The Group has maintained a tight control over the operating expenses. Despite an increase in professional fees which are used for liaison with the Stock Exchange for the resumption of trading of the Company's shares, the Group's general and administrative expenses actually fell by 1.6%. The overall selling expenses have only increased by 5.0% despite an increase of 32.2% in turnover as compared with last year.

Finance Costs

As the Group has financed certain of its investments through bank borrowings, finance costs increased significantly to approximately HK$8.8 million (2004: approximately HK$7.6 million).

Net Profit for the Year

Net profit of approximately HK$68.3 million for the year was recorded by the Group, representing a significant improvement in a net loss of approximately HK$139.8 million for last year. The Group's performance improved significantly because it was released from its obligation to repay two bank loans and the interests thereon in aggregate of approximately HK$63.3 million and there was a revaluation gain of approximately HK$13.2 million in Hong Kong properties.

FINANCIAL REVIEW *(Continued)*

Liquidity, Charge on Group Assets and Financial Resources

As at 31st December 2005, the Group had net current assets of approximately HK$265.1 million. The Group had cash and bank deposits totalling approximately HK$135.4 million, of which approximately HK$35.2 million were pledged with banks for banking facilities. The Group's financial resources were funded mainly by its shareholders' funds. As at 31st December 2005, the Group's current ratio was 1.8 times and the gearing ratio, as measured by total liabilities over total assets, was 0.4 time. Overall, the financial and liquidity positions of the Group remain at a stable and healthy level.

Capital Structure

The shares of the Company were listed on GEM on 31st January 2000. There has been no change in the capital structure of the Company since that date.

Significant Investments/Material Acquisitions and Disposals

During the year of 2004, the Group made an indirect investment in 51 million domestic institutional shares of Ping An Insurance, one of China's largest insurance companies through the acquisition of the 10.435% equity interest in JI as referred to in an agreement dated 10th August 2004. For the financial year 2004, Ping An Insurance recorded net earnings per share of RMB0.56 and declared a dividend of RMB0.14 per share. The 51 million domestic institutional shares of Ping An Insurance have been pledged in favor of the Group and its borrowing as the date of this report.

For the year ended 31st December 2005, the Group had no significant investments and no material acquisitions or disposals.

Segment Information

The Group's total turnover of Information Home Appliances segment decreased slightly by 3.8% to approximately HK$176.6 million as compared to last year and an operating profit of approximately HK$21.9 million was incurred as compared to an operating loss of approximately HK$6.2 million from last year. The decrease in turnover but the improvement in the operating profit was mainly due to the elimination certain unprofitable product lines.

FINANCIAL REVIEW *(Continued)*

Segment Information *(Continued)*

In this fiscal year, due to a strong demand for the latest digital consumer electronics products in both global and the PRC markets, the total turnover of Electronic Components segment for the year increased significantly by 51.2% to approximately HK$708.0 million as compared to last year. However, due to a provision of inventory approximately HK$9.8 million in certain electronic components that yielded low return, an operating profit of only approximately HK$77,000 was incurred in this segment this year.

The PRC was the Group's major market. During the year 2005, the PRC market had a strong demand for the latest digital consumer electronic products. As a result, there was a strong revenue growth of 16.9% to approximately HK$515.1 million as compared to last year in the PRC market. In addition, the Group's export business which is mainly conducted through the Group's Hong Kong office has also significantly improved. The turnover from Hong Kong and overseas markets increased by 39.4% and 293.2% in 2005 to approximately HK$300.6 million and HK$78.7 million respectively.

Exposure to Fluctuations in Exchange Rates

Most of the trading transactions of the Group were denominated in US dollars and in Renminbi, while assets of the Group were mainly denominated in Renminbi and the remaining portions were denominated in Hong Kong dollars. The official rates for US dollars and Renminbi have remained stable for the year 2005. No hedging or similar measures have been implemented by the Group. As at 31st December 2005, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

Human Resources

As at 31st December 2005, the Group had over 900 full time employees, of which 26 were based in Hong Kong and the rest were in the PRC. For the year ended 31st December 2005, staff costs amounted to approximately HK$18.8 million (2004: approximately HK$17.1 million). All employees of the Company's subsidiaries are selected and promoted based on their suitability for the position offered. The salary and benefit levels of the Group's employees are in line with the market. Employees are rewarded on a performance-related basis within the general framework of the Group's remuneration system which is reviewed annually. In addition to the basic salaries, staff benefits include medical scheme, various insurance schemes and share options.

BUSINESS REVIEW

The Group is mainly divided into two segments or four divisions. The four divisions are IC (which is mainly in the Electronics Components segment), IA (Information Home Appliances segment), OEM (both Electronics Components and Information Home Appliance segments) and AV (Information Home Appliance segment).

The Group's overall operating performance continue to improve with consolidated turnover increased by 32.2% to approximately HK$894.4 million. In addition, the overall net profit for the year also increased to approximately HK$68.3 million. A significant improvement from a net loss in the previous fiscal year. The Group's performance improved significantly because the Group was released from its obligation to repay two bank loans and the interests thereon in aggregate of approximately HK$63.3 million and a revaluation gain of approximately HK$13.2 million in Hong Kong properties.

BUSINESS REVIEW *(Continued)*

The significant improvement in the Group's performance continues to come from the Group's IA divisions which saw stunning rises in profit contribution. The IA division which is responsible for the Group's business in IPTV and VOD set-top boxes continues to be the most profitable division of all. In the year under review, the division's shipment of IPTV and VOD set-top boxes nearly doubled as the deployment to the division's Japanese customer began in significant volume. Meanwhile, other projects with various major system integrators, telecom equipment providers and telecom operators have also begun initial discussions.

During the year 2005, global economies as well as the PRC economy continue to thrive and this has further led to a strong demand for the latest digital consumer electronics products. The Group's other star operating division namely IC division, which is well-positioned to capture the opportunity in this increasing demand, continues to record strong performances. Furthermore, in order to further enhance the product lines of the IC division, during the year in review, the IC division has further set up various new research and development teams in order to explore the opportunities of other consumer electronic products.

However, the Group continues to incur losses from both the AV and OEM divisions. In the year under review, the Group has seen a significant improvement from the AV division, which has scaled down its business activities, with a loss of approximately HK$4.0 million, that is a huge step forward from a loss of approximately HK$14.3 million in the previous fiscal year. Moreover, the AV division has begun actively exploring joint projects which would utilize the reputation of the "Yuxing" brandname in order to generate further potential return to the Group.

Nevertheless, the biggest problem of the Group is now the OEM division which has incurred another huge loss of approximately HK$17.3 million in the year 2005. The Group's senior management has begun to reshape the OEM division's business activities with the introduction of new product lines such as DVB equipment, portable media players, and etc. In addition, the Group has scaled down various other product lines such as DVD players and the related components which do not provide reasonable return. There have been certain improvement through the above restructuring program but such improvement has yet to become significant.

PROSPECT

Looking forward, the Group's senior management continues to believe that the two star divisions of the Group, namely IC and IA divisions will continue to contribute most of the profit and sales revenue towards the Group's consolidated financial performance. As the two divisions continue to grow, the Group will try to provide more resources to the two divisions to ensure the maximum contribution from the two divisions. Nevertheless, the Group's senior management will continue to assess the marginal returns and associated risk that can be generated from additional investment in these two divisions to ensure the best return to the Company's shareholders.

Globally, the demand for IPTV and VOD services continues to rise. Being one of the top players in this area, the IA division believes that there lies plenty of opportunities to further explore this particular industry. In addition to the products which embedded with MPEG-2 decoding technology, the division is planning to begin shipment of various other products incorporating MPEG-4, DIVX, Windows Media Version 9 and H.264 decoding technologies which will further help to reduce the bandwidth requirement for delivering Internet-based and on-demand video services. The IA division's success in the Hong Kong and Japanese markets which have been known to have high demands in terms of quality and function requirements for electronics products, further proves its competitiveness amongst world's top players. With the global industry estimated to grow at over 58% (source: In-Stat/MDR), the IA division continues to expect another high double digit growth in the coming fiscal year.

PROSPECT *(Continued)*

As mentioned before, the Group is planning to inject more resources in the IC division which has also shown superior financial performances for the past few years. However, the Group does not rule out the possibility of disposing the IC division due to the high risk profile of this division. Currently, the Group's senior management also monitors closely the IC division's performance as despite the fact that the IC division has enjoyed very high growth rates in turnover over the past few years, it has yielded very little gross profit margin and required huge working capital input. This has in turn increased the overall risk of the IC division. As the global demand of niche electronics products continue to improve and the demand for electronics products manufactured in China continues to rise, the IC division which provides integrated embedded solutions will also be able to capture the opportunities that associated with the above two trends. In addition to its existing product lines that will continue to carry the division into another mid-double digit growth in revenue, the division is expecting to introduce various new product lines such as mobile telecommunication products in the coming fiscal year.

As the Group's two other divisions, the AV and OEM divisions, are currently losing money, the Group is also actively fixing the problems which they currently face. Although there are still many uncertainties ahead with these two divisions, the Group is confident that the performance of these two divisions will improve significantly within the coming few years. Currently, the AV division is discussing various projects where the counter party will utilize the Group's brand name "Yuxing" to market various electronics and/or educational products and the AV division will retain a loyalty fee for each product sold. The OEM division is expected to improve as well by introduction of other new products with higher profit margin and streamlining some old products with lower profit margin.

In summary, the Company believes that with the rising demand for the IA and IC divisions' products and the expected improvements in the AV and OEM divisions, the overall Group's performance will record another strong year in 2006.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhu Wei Sha, aged 51, is a co-founder of the Group. He has been the chairman of the Board and the president of the Group since 1996. He graduated from the Department of Automatic Control of the Beijing Industrial University with a bachelor degree in engineering. He had worked at the Beijing Machinery Electronic Research Institute and the Industrial Economic Research Department of the China Social Science Institute and as the legal representative and general manager of the Beijing Shanchuan Jinji Technology Company. He is a committee member of the Political Consultative Committee and Democracy and Constructive Alliance in Beijing. Mr. Zhu has extensive experience and insights in corporate management and operation as well as solid technological background. He also has an in-depth understanding of the growth of a corporation by combining the concept of both capital investment and business operation. He has accumulated years of successful experience in this regard. Mr. Zhu is currently a director and a shareholder of Super Dragon Co., Ltd. ("Super Dragon") which has a 41.25% interest in the share capital of the Company.

Mr. Chen Fu Rong, aged 45, is a co-founder of the Group. He has been a vice president of the Group since 1996. He graduated from the Department of Automatic Control of the Beijing Industrial University with a bachelor degree in engineering. He had worked at the Industrial Economic Research Department of the China Social Science Institute and Beijing Machinery Electronics Co. and has extensive experience in computer hardware design and management of research and development activities. Mr. Chen possesses 13 years' experience in research and development and engineering management. Mr. Chen is currently the executive president of Sheng Bang Qiang Dian Electronics (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Group and is deputy chairman of the board of the Company (the "Board"). Mr. Chan is also a director and a shareholder of Super Dragon.

Mr. Wang An Zhong, aged 49, is a vice president of the Group. He graduated with a master degree in engineering from the Department of Computer Science of the Beijing Industrial University. He was an associate professor and has extensive experience in lecturing and scientific research. He managed and was involved in a number of the State's research projects and won several awards. Mr. Wang joined the Group in 1997 as the general manager of the research and development department. He is currently the Vice President-Operations of Golden Yuxing.

Mr. Shi Guang Rong, aged 45, has been a vice president of the Group since 1996. He graduated with a bachelor degree in engineering from the Department of Automatic Control of the Beijing Industrial University. He had worked at various enterprises in the PRC. He is responsible for the marketing and public relation matters of the Group and possesses 15 years' experience in product marketing and promotion. Mr. Shi is currently the Chief Executive Officer of Yuxing Technology Company Limited, a wholly-owned subsidiary of the Group in Hong Kong and is a director of Dragon Treasure Ltd. ("Dragon Treasure") which has 33.63% interests in the share capital of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Jia Jun, aged 73, is currently a researcher at the China Social Science Institute, a mentor professor for doctorate students and an executive vice president of the Industrial and Economic Research and Development Association of China. He served as the vice general manager of the Chinese Industrial and Economic Research Institute from 1980 to 1993, and the vice president of the Young Entrepreneurs Association of China. Mr. Wu has extensive experience in conducting research in the economy and industries of the PRC and also in corporate management. He is a renowned scholar in Japanese corporate and industrial management of which he has an in-depth knowledge. He has published several books and articles on corporate management and economic reform. Mr. Wu was appointed as Independent Non-executive Director in October 1999.

Biographical Details of Directors and Senior Management

Mr. Zhong Peng Rong, aged 51, is a renowned Chinese economist. He worked with the central government of the PRC for many years as a chief researcher. He now serves as a professor of several famous universities and as an adviser to over 20 enterprises and local governments of the PRC. As the chairman and research fellow of the Beijing Shiye Consultancy Centre, he has formulated development strategies for enterprises in different industries and for local governments. He has an in-depth understanding of the macroeconomic environment and government administration in the PRC. Mr. Zhong was appointed as Independent Non-executive Director in October 1999.

Ms. Shen Yan, aged 42, holds a bachelor degree in Accounting and has 11 years of experience in accounting and 7 years of experience in auditing. She is currently a tutor of North China University of Technology. Ms. Shen was appointed as Independent Non-executive Director in January 2005.

COMPANY SECRETARIES

Mr. Di Yu Zeng, aged 45, is a company secretary of the Group. Before joining the Group in 1997, he served as the chief secretary of the president's office, an assistant manager of the research department at a large domestic enterprise and the head of the equity securities department at Beiren Printing Machinery Holdings Limited, a PRC company listed on the Stock Exchange, and was responsible for the administration of securities related matters.

Ms. Chan Sau Mui, Juanna, aged 42, is a company secretary of the Group. Ms. Chan is an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries & Administrators respectively. Ms. Chan joined the Group in 2001 and has six years of experience in the company secretary field.

SENIOR MANAGEMENT

Mr. Liu Chia Yao, Joseph, aged 39, is the Chief Strategist of the Group. He is primarily responsible for the overall business planning, management and administration of the Group. Mr. Liu graduated from University of British Columbia with a Bachelor Degree in Engineering Physics and a Master Degree in Business Administration in the University of British Columbia. Prior to joining the Group in July 2003, Mr. Liu has worked for a number of investment banks and venture capital firms specialising in the technology industry throughout Asia and the United States.

Miss Wu Wai Ting, Wendy, aged 33, is the finance manager of the Group. She is a graduate of the Monash University in Australia with a master degree in Practising Accounting and holds a bachelor degree in Business (International Trade). Miss Wu is a Certified Practising Accountant of CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. She has 8 years' experience in accounting and finance. Miss Wu joined the Group in March 2000.

Directors' Report

The Directors have pleasure in submitting to all shareholders their report together with the audited financial statements for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 43 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 32 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31st December 2005 are set out in the consolidated income statement on page 32.

The Directors do not recommend the payment of a final dividend for the year.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 35 and note 34 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31st December 2005, no reserve (2004: Nil) is available for distribution to equity holders of the parent.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 8.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the year.

SHARE OPTIONS

Details of the Company's share option schemes are set out in note 33 to the financial statements.

The following table discloses movement in the Company's share options held by an Executive Director during the year:

			Number of share options				
Name of director	**Exercise price per share**	**Exercisable period**	**At 1st January 2005**	**Exercised during the year**	**Granted during the year**	**Cancelled/ lapsed during the year**	**At 31st December 2005**
	HK$						
Mr. Wang An Zhong	0.95	28th November 2001 to 27th November 2005	1,000,000	–	–	(1,000,000)	–

Other than as disclosed above, at no time during the year was the Company, or its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Details of the movement in the Company's share options held by continuous contract employees (other than the Directors) during the year are set out in note 33 to the financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

A brief biographical details of Directors and senior management are set out on pages 15 and 16.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Zhu Wei Sha *(Chairman)*
Mr. Chen Fu Rong *(Deputy Chairman)*
Mr. Shi Guang Rong
Mr. Wang An Zhong

Independent Non-executive Directors:

Mr. Wu Jia Jun	
Mr. Zhong Peng Rong	
Ms. Shen Yan	(appointed on 12th January 2005)
Ms. Ye Lianru	(appointed on 30th September 2004 and resigned on 12th January 2005)

In accordance with Bye-law 87 of the Company's Bye-laws, Messrs. Wu Jia Jun, Zhong Peng Rong and Shen Yan retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years from 7th October 1999 and has automatically renewed the service contract upon the expiry of the initial term of three years on 7th October 2002. Their respective service contracts (which is automatically renewed upon expiry for successive terms of one year) are subject to termination by either party given not less than 6 months' notice in writing.

The Independent Non-executive Directors, Messrs. Wu Jia Jun and Zhong Peng Rong, were appointed for a two-year term expiring on 24th October 2005 and have accepted to continue their appointment for another two-year term expiring on 24th October 2007. Ms. Shen Yan was appointed as Independent Non-executive Director for a term of one year expiring on 11th January 2006 and has accepted to continue for another two-year term expiring on 11th January 2008.

Save as disclosed above, no Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as the Directors' service contracts disclosed in this annual report, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN CONTRACTS

No contracts of significance between the Group and a controlling shareholder or any of its subsidiaries subsisted at the end of the year or at any time during the year.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements.

EMOLUMENT POLICY

The Directors are paid fees in line with market practice. The Group adopted the following main principles of determining the Directors' remuneration:

- No individual should determine his or her own remuneration
- Remuneration should be broadly aligned with companies with whom the Group competes for human resources
- Remuneration should reflect performance and responsibility with a view to motivating and retaining high performing individuals and enhancing of the value of the Company to its shareholders

In addition to the basic salaries, a share option scheme is adopted for rewarding good performers as well as retaining talented staff for the continual operation and development of the Group.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2005, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required, pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(1) Long positions in the shares of the Company

Name of Director	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Mr. Zhu Wei Sha	Corporate *(Note 1)*	165,000,000	Interest of a controlled corporation	41.25%
Mr. Chen Fu Rong	Corporate *(Note 1)*	165,000,000	Interest of a controlled corporation	41.25%
Mr. Shi Guang Rong	Personal *(Note 2)*	6,000,000	Beneficial owner	1.50%
Mr. Wang An Zhong	Personal *(Note 2)*	1,084,189	Beneficial owner	0.27%

Notes:

1. Messrs. Zhu Wei Sha and Chen Fu Rong held these shares through Super Dragon, a company in which Messrs. Zhu Wei Sha and Chen Fu Rong held 63.6% and 36.4% of the entire issued share capital respectively.

2. Dragon Treasure is a nominee company and acts as the trustee for holding these shares in the Company on behalf of the past and present employees of the Group, including Messrs. Shi Guang Rong and Wang An Zhong.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(2) Long positions in the underlying shares of the Company

Pursuant to the share option scheme approved by the shareholders of the Company on 18th January 2000, a Director in the capacity as beneficial owners was granted unlisted and physically settled share options to subscribe for shares of the Company, details of which as at 31st December 2005 were as follows:

				Number of share options				
Name of Director	Date of grant	Exercise price per share HK$	Exercisable period	At 1st January 2005	Exercised during the year	Granted during the year	Cancelled/ lapsed during the year	At 31st December 2005
Mr. Wang An Zhong	28th November 2000	0.95	28th November 2001 to 27th November 2005	1,000,000	–	–	(1,000,000)	–

Name of interest	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Personal	–	Beneficial owner	–

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 31st December 2005, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 to the GEM Listing Rules.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or chief executive of the Company, as at 31st December 2005, the following were the substantial shareholders (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholders	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Super Dragon *(Note 1)*	Corporate	165,000,000	Beneficial owner	41.25%
Dragon Treasure *(Note 2)*	Corporate	134,508,000	Trustee	33.63%

Notes:

1. Super Dragon is beneficially owned by Mr. Zhu Wei Sha, as at 63.6%, and Mr. Chen Fu Rong, as to 36.4% respectively.

2. Dragon Treasure is a nominee company and acts as the trustee for holding these shares in the Company on behalf of the past and present employees of the Group, including Messrs. Shi Guang Rong and Wang An Zhong, whose interests in the shares and underlying shares of the Company are disclosed in the section "Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures" above.

Save as disclosed above, as at 31st December 2005, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

–	the largest supplier	60.6%
–	five largest suppliers combined	68.9%

Sales

–	the largest customer	10.3%
–	five largest customers combined	33.0%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers and major customers noted above.

COMPETING INTERESTS

None of the Directors or management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year.

SUMMARY OF AUDITORS' REPORT

Insufficient information to assess the valuation of financial assets at fair value through profit or loss

As at 31st December 2005, the Group held a 10.435% equity interest in JI, a company which holds, amongst others, domestic institutional shares of Ping An Insurance. The interests in JI is included in the balance sheet at the Directors' estimated fair value of approximately HK$208,594,000 (2004: approximately HK$204,274,000). However, the auditors were unable to obtain sufficient appropriate audit evidence relating to JI to satisfy themselves about its valuation nor that this amount is free from material misstatement. Any adjustment that might have been found to be necessary to the above amount would have a consequential effect on the net assets of the Group and of the Company as at 31st December 2005 and on the net profit and cash flow of the Group for the year then ended and the related disclosures in the financial statements.

In forming their opinion, the auditors also evaluated the overall adequacy of the presentation of information in the financial statements. The auditors believe that their audit provides a reasonable basis for their opinion.

SUMMARY OF AUDITORS' REPORT *(Continued)*

Qualified opinion: Disclaimer on view given by accounts

Because of the significance of the possible effect of the limitation in evidence available to the auditors in respect of the valuation and the related disclosure about the investment in JI, the auditors are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2005 or of its profit and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance. In respect alone of the limitation on the auditors' work relating to the matters that set out the basis of opinion, the auditors have not obtained all the information and explanations that they considered necessary for the purpose of their audit.

AUDITORS

Messrs. Deloitte Touche Tohmatsu ("Deloitte"), who acted as auditors of the Company since 16th August 2002, had resigned on 21st December 2005 and CCIF CPA Limited ("CCIF") were appointed as provisional auditors of the Company on 26th January 2006 to fill the casual vacancy.

A resolution will be submitted to the 2006 annual general meeting of the Company to ratify and re-appoint CCIF as auditors of the Company.

On behalf of the Board
Yuxing InfoTech Holdings Limited
Chen Fu Rong
Deputy Chairman

Shenzhen, the PRC, 22nd March 2006

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the rapid growth of the Group and for safeguarding and maximizing shareholders' interests.

The Group has adopted a set of Code on Corporate Governance ("Company Code") which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared by referencing to the principles, code provisions and recommended best practices set out in the Code on Corporate Governance Practices ("GEM Code") contained in Appendix 15 of the GEM Listing Rules, which came into effect on 1st January 2005. The Board will continue to monitor and revise the Company Code and assess the effectiveness of our corporate governance practices in tandem with changes in the environment and requirements under the GEM code, to ensure the Company code is in line with the expectations and interests of shareholders and comply with the GEM code.

Subject to the deviations as disclosed hereof and under the section "Chairman and Chief Executive Officer", the Company has complied with all the GEM Code during the period under review.

(a) Under provision A.4.2 of the GEM Code, every Director should be subject to retirement by rotation at least once every three years. The existing Bye-laws of the Company provide that no Director holding office as chairman of the Board and/or managing Director shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. Accordingly, as at the date hereof, Mr. Zhu Wei Sha, being the chairman of the Board, is not subject to retirement by rotation.

(b) Under provision B.1.1 of the GEM code, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authorities and duties. It was not until October 2005 that the Company established a remuneration committee as required under provision B.1.1 of the GEM code.

(c) Under provision E.1.2 of the GEM code, the chairman of the Board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) to be available to answer questions at the general meeting. Mr. Chen Fu Rong, the deputy chairman of the Board has been performing the above duties in lieu of Mr. Zhu Wei Sha, the chairman of the Board, who has been absent from office since 24th March 2005.

SECURITIES TRANSACTIONS BY DIRECTORS

Although the Company has not adopted any code of conduct regarding the Directors' securities transactions, it has made specific enquiry of all Directors, other than Mr. Zhu Wei Sha, and all Directors have confirmed that they have complied with all the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules during the year.

BOARD COMPOSITION

The Board is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors' responsibility to create value for shareholders as a whole and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith.

The Board comprises a total of seven Directors, with four Executive Directors, namely, Mr. Zhu Wei Sha (Chairman), Mr. Chen Fu Rong (Deputy Chairman), Mr. Shi Guang Rong and Mr. Wang An Zhong; and three Independent Non-executive Directors, namely, Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan who has appropriate professional qualifications, accounting and financial management expertise.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realizing the strategies and goals of the Group;

- being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;

- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to quarterly, interim and annual reports of the Company, other price sensitive announcements published according to the GEM Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information disclosable under statutory requirements;

- whilst Executive Directors, who oversee the overall business of the Company, are responsible for the daily operations of the Company, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy;

- the management is well informed of its powers and duties with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company; and

- regularly reviewing its own functions and the powers conferred upon Executive Directors to ensure appropriate arrangements are in place.

BOARD COMPOSITION *(Continued)*

The full Board meets at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the Independent Non-executive Directors are actively sought by the Company if they are unable to attend the meeting in person.

In 2005, the Board held four full board meetings. The attendance record of each member of the Board is set out below:

Executive Directors	**Attendance**
Mr. Zhu Wei Sha *(Chairman)*	0/4
Mr. Chen Fu Rong *(Deputy Chairman)*	4/4
Mr. Wang An Zhong	4/4
Mr. Shi Guang Rong	4/4
Independent Non-executive Directors	
Mr. Wu Jia Jun	4/4
Mr. Zhong Peng Rong	2/4
Ms. Shen Yan	4/4

All the Independent Non-executive Directors are appointed for two-year term, and subject to rotation and re-election pursuant to the Company's Bye-laws. Details of their appointment please refer to the section "Directors' Service Contracts" on page 19.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under provision A.2.1 of the GEM Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the Group's chairman and chief executive officer have effectively been performed by Mr. Chen Fu Rong since March 2005. The deviation from this code provision can be explained by the sole suitability of Mr. Chen Fu Rong, co-founder of the Group, to take up the role of chairman of the Group with his high standing both within the Group and in the domestic electronics industry at large in light of the swift expansion of the Group. In view of the above, the Board, after due and careful consideration, is of the view that Mr. Chen is to date the single most suitable person to perform the roles of both the chairman and chief executive officer of the Group. Therefore, the roles of the chairman and chief executive officer of the Group are exercised by the same individual.

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. The chairman of the Board is mainly responsible for identifying suitable candidates for the Board when there is a vacancy or an additional director is considered necessary. The chairman of the Board will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his/her qualifications, experience and background. The decision of appointing a director must be approved by the Board. Any newly appointed director by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established in October 2005. It comprises Mr. Sun Li Sun (Chairman), Mr. Wang An Zhong and all Independent Non-executive Directors, Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan. The remuneration committee performs its functions, which primarily include assisting the Board in the overall management of the remuneration practices of the Group to ensure that effective policies, processes and practices are implemented in respect of the incentives for the Directors and senior management, in accordance with provision B.1.3 of the GEM Code.

During the year 2005, the remuneration committee of the Company convened two meetings, in which duties of the remuneration committee were identified, the appraisal system of the Company was reviewed, and all matters concerning the determination of remuneration of the Directors and senior management were discussed. In addition, the remuneration policies and incentive mechanism applicable to the Directors and senior management and the overall remuneration system of the Group were further refined and reasonable recommendations were made to the Board in the meetings. The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the Executive Directors and appointment letters of the Independent Non-executive Directors.

Details of the attendance of the remuneration committee meeting are as follows:

Members	**Attendance**
Mr. Sun Li Jin *(Chairman)*	2/2
Mr. Wang An Zhong	2/2
Mr. Wu Jia Jun	2/2
Mr. Zhong Peng Rong	2/2
Ms. Shen Yan	2/2

AUDITORS' REMUNERATION

The remuneration in respect of audit services provided by the auditors, CCIF, to the Group in the year 2005 amounted to HK$880,000. Non-audit services provided by Deloitte to the Group in the year 2005 were tax services amounting to HK$10,000.

AUDIT COMMITTEE

The Company established an audit committee on 20th November 1999 with written terms of reference in compliance with the GEM Listing Rules.

The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. The primary duties of the audit committee are to review and supervise the financial reporting process of the Group. It also reviews the effectiveness of both the external audit and of internal controls and risk evaluation. The audit committee comprises three Independent Non-executive Directors, namely Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan. Ms. Shen Yan was appointed as the chairman of the audit committee. Four meetings were held during the current financial year.

The attendance record of each member of the audit committee is set out below:

Members	**Attendance**
Ms. Shen Yan *(Chairman)*	4/4
Mr. Zhong Reng Rong	2/4
Mr. Wu Jia Jun	4/4

The audit committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Committee also carried out and discharged its duties set out in the GEM Code.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

Statements of Directors' responsibilities for preparing the financial statements and external auditors' reporting responsibilities are set out in the Auditors' Report.

INTERNAL CONTROL

The Directors have reviewed and are satisfied with the effectiveness of the Group's internal control system, including, in particular, financial, operational and compliance controls and risk management functions.

CCIF

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF YUXING INFOTECH HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 32 to 85 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited because as disclosed in notes 22 and 23 to the financial statements, as at 31st December 2005, the Group held a 10.435% interest in Shenzhen Jiangnan Industrial Development Co., Ltd. ("JI"), a company which holds certain interests in the domestic institutional shares of Ping An Insurance (Group) Company of Chinese Limited. The interest in JI is included in the balance sheet at the Directors' estimated fair value of approximately HK$208,594,000 (2004: HK$204,274,000). However, we were unable to obtain sufficient appropriate audit evidence relating to JI to satisfy ourselves as to its valuation and that this amount is free from material misstatement.

Any adjustment that might have been found to be necessary in respect of the matters set out above would have a consequential effect on the financial positions of the Group and of the Company as at 31st December 2005 and on the net profit and cash flows of the Group for the year then ended and the related disclosures in the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitation in evidence available to us in respect of the valuation of and the related disclosure about the investment in JI, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2005 or of its profit and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the matters set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

CCIF CPA Limited
Certified Public Accountants

Hong Kong, 22nd March 2006

Betty P.C. Tse
Practising Certificate Number P03024

Consolidated Income Statement

For the year ended 31st December 2005

	Notes	2005	(As restated) 2004
		HK$'000	HK$'000
Turnover	6	**894,393**	676,568
Cost of sales		**(822,621)**	(636,080)
Gross profit		**71,772**	40,488
Other income	7	**63,343**	–
Other operating income	8	**16,550**	15,182
Selling expenses		**(19,981)**	(19,038)
General and administrative expenses		**(51,898)**	(52,734)
Other operating expenses		**(2,628)**	(1,027)
Fair value gain on investment properties	16	**13,200**	–
Impairment loss recognised on other assets	26	**–**	(61,310)
Allowance for loans receivables	28	**(1,887)**	(45,029)
Profit/(loss) from operations	9	**88,471**	(123,468)
Finance costs	12	**(8,778)**	(7,606)
Share of results of associates		**(147)**	(2,256)
Gain on disposal of a subsidiary	35	**27**	–
Profit/(loss) before taxation		**79,573**	(133,330)
Taxation	13	**(4,271)**	(2,030)
Net profit/(loss) for the year		**75,302**	(135,360)
Attributable to:			
Equity holders of the parent		**68,320**	(139,795)
Minority interests		**6,982**	4,435
		75,302	(135,360)
Dividend	14	**–**	10,000
Earning/(loss) per share attributable to equity holders of the parent			
– Basic	15	**17.08 cents**	(34.95) cents

Consolidated Balance Sheet

As at 31st December 2005

	Notes	2005 HK$'000	(As restated) 2004 HK$'000
NON-CURRENT ASSETS			
Investment properties	16	**21,800**	–
Property, plant and equipment	17	**114,896**	114,644
Prepaid lease payments	18	**12,315**	15,018
Intangible assets	19	**1,646**	1,314
Available-for-sale financial assets	21	**6,366**	–
Investments in securities	22	**–**	6,366
Interests in associates	24	**–**	753
		157,023	138,095
CURRENT ASSETS			
Inventories	25	**72,467**	77,243
Other assets	26	**–**	–
Trade and other receivables	27	**164,788**	100,429
Loans and interest receivables	28	**–**	–
Prepaid lease payments	18	**297**	372
Taxation recoverable		**–**	127
Investments in securities	22	**–**	211,565
Financial assets at fair value through profit or loss	23	**211,905**	–
Pledged bank deposits	36	**35,225**	107,549
Bank balances and cash		**100,220**	127,849
		584,902	625,134
CURRENT LIABILITIES			
Trade and other payables	29	**239,105**	193,839
Taxation payable		**2,175**	1,590
Obligations under finance leases – due within one year	30	**1,471**	1,426
Bank and other loans – due within one year	31	**77,080**	222,463
		319,831	419,318
NET CURRENT ASSETS		**265,071**	205,816
TOTAL ASSETS LESS CURRENT LIABILITIES		**422,094**	343,911
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year	30	**912**	2,373
Bank and other loans – due after one year	31	**5,516**	5,666
		6,428	8,039
		415,666	335,872
CAPITAL AND RESERVES			
Share capital	32	**40,000**	40,000
Reserves		**355,740**	282,346
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**395,740**	322,346
MINORITY INTERESTS		**19,926**	13,526
		415,666	335,872

The financial statements on pages 32 to 85 were approved and authorised for issue by the Board of Directors on 22nd March 2006 and are signed on its behalf by:

Chen Fu Rong
Deputy Chairman

Shi Guang Rong
Vice President

Balance Sheet

As at 31st December 2005

	Notes	**2005**	2004
		HK$'000	HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	20	**380,142**	284,720
CURRENT ASSETS			
Trade and other receivables	27	**279**	537
Loans and interest receivables	28	**–**	–
Pledged bank deposits		**–**	90,315
Bank balances and cash		**1,387**	9,310
		1,666	100,162
CURRENT LIABILITIES			
Trade and other payables	29	**1,152**	1,266
Amounts due to subsidiaries		**4,872**	2,986
		6,024	4,252
NET CURRENT (LIABILITIES)/ASSETS		**(4,358)**	95,910
TOTAL ASSETS LESS CURRENT LIABILITIES		**375,784**	380,630
CAPITAL AND RESERVES			
Share capital	32	**40,000**	40,000
Reserves	34	**335,784**	340,630
		375,784	380,630

Approved by the Board on 22nd March 2006 and signed on behalf of the Board by:

Chen Fu Rong
Deputy Chairman

Shi Guang Rong
Vice President

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Attributable to equity holders of the parent							
	Share capital HK$'000	Share premium HK$'000	Statutory reserves HK$'000 (Note)	Translation reserves HK$'000	Retained profits/ (Accumulated loss) HK$'000	Total HK$'000	Minority interests HK$'000	Total Equity HK$'000
At 1st January 2004	40,000	381,713	11,767	1,079	37,929	472,488	9,091	481,579
Exchange adjustments arising on translation of financial statements of subsidiaries outside Hong Kong and loss not recognised in the consolidated income statements	–	–	–	(347)	–	(347)	–	(347)
Net (loss)/profit for the year	–	–	–	–	(139,795)	(139,795)	4,435	(135,360)
2003 final dividend paid	–	–	–	–	(10,000)	(10,000)	–	(10,000)
At 31st December 2004	40,000	381,713	11,767	732	(111,866)	322,346	13,526	335,872
Realised on disposal of a subsidiary	–	–	–	–	(49)	(49)	(582)	(631)
Transfer	–	–	5,107	(160)	(4,947)	–	–	–
Exchange adjustments arising on translation of financial statements of subsidiaries outside Hong Kong and gain not recognised in the consolidated income statements	–	–	–	5,123	–	5,123	–	5,123
Net profit for the year	–	–	–	–	68,320	68,320	6,982	75,302
At 31st December 2005	**40,000**	**381,713**	**16,874**	**5,695**	**(48,542)**	**395,740**	**19,926**	**415,666**

Note: Statutory reserves comprise statutory surplus reserve and statutory public welfare fund of the subsidiaries in the Peoples' Republic of China (other than Hong Kong) (the "PRC") and form part of shareholders' funds. Pursuant to the relevant laws and the regulations of a portion of the profits of the PRC, PRC subsidiaries had been transferred to statutory reserves which are restricted as to their use.

Consolidated Cash Flow Statement

For the year ended 31st December 2005

	2005 HK$'000	(As restated) 2004 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before taxation	**79,573**	(133,330)
Adjustments for:		
Interest income	**(1,591)**	(9,482)
Interest expenses	**8,778**	7,606
Dividend income	**(6,791)**	–
Depreciation of property, plant and equipment	**7,507**	3,407
Fair value gain on investment properties	**(13,200)**	–
Amortisation of intangible assets	**882**	2,627
Amortisation of prepaid lease payments	**315**	307
Loss on disposal of property, plant and equipment	**–**	5
Gain on disposal of a subsidiary	**(27)**	–
Loss on disposal of associates	**606**	–
Gains on disposal of financial assets at fair value through profit or loss	**(147)**	–
Gains on disposal of investments in securities	**–**	(604)
Net unrealised holding gains on investments in securities	**–**	(374)
Net unrealised holding gains on financial assets at fair value through profit or loss	**(315)**	–
Allowance for inventories	**12,506**	6,502
Allowance for bad and doubtful debts	**1,055**	16,599
Other income	**(63,343)**	–
Impairment loss recognised on other assets	**–**	61,310
Allowance for loans receivables	**1,887**	45,029
Share of result of associates	**147**	2,256
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	**27,842**	1,858
(Increase)/decrease in inventories	**(7,949)**	36,157
(Increase)/decrease in trade and other receivables	**(66,126)**	12,543
Increase in trade and other payables	**45,344**	25,968
CASH (USED IN)/GENERATED FROM OPERATIONS	**(889)**	76,526
Income taxes paid	**(3,495)**	(699)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(4,384)**	75,827

	Note	2005 HK$'000	(As restated) 2004 HK$'000
INVESTING ACTIVITIES			
Purchase of investments in securities		**–**	(381,601)
Purchase of financial assets at fair value through profit or loss		**(6,231)**	–
Decrease/(increase) in pledged bank deposits		**72,324**	(84,772)
Purchase of property, plant and equipment		**(11,363)**	(80,178)
Purchase of intangible assets		**(1,202)**	(1,156)
Increase in loans and interest receivables		**(1,887)**	(14,280)
Advance to a related party		**–**	(4,706)
Proceeds from disposal of investments in securities		**–**	190,381
Proceeds from disposal of financial assets at fair value through profit or loss		**10,379**	–
Interest received		**1,591**	9,482
Dividend received		**6,791**	–
Proceeds from disposal of property, plant and equipment		**18**	2,693
Proceeds from disposal of a subsidiary (net of cash and cash equivalents disposed of)	35	**260**	–
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**70,680**	(364,137)
FINANCING ACTIVITIES			
New bank and other loans raised		**19,225**	279,184
Repayment of bank and other loans		**(102,610)**	(144,105)
Dividend paid		**–**	(10,000)
Interest paid		**(8,778)**	(8,460)
Repayment of obligations under finance leases		**(1,416)**	(570)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		**(93,579)**	116,049
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(27,283)**	(172,261)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**127,849**	300,498
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(346)**	(388)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Bank balances and cash		**100,220**	127,849

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 43.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, 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 consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. 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 and prior accounting years are prepared and presented:

(a) Share-based Payment

In the current year, 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 the expensing of the fair value of share options granted to directors and employees 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. With effect from 1st January 2005, the Group has adopted a new policy for share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(i) all options granted to employees on or before 7th November 2002; and

(ii) all options granted to employees after 7th November 2002 but which had vested before 1st January 2005.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Financial Instruments

In the current year, 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 the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instrument of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

(i) Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the 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 equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in equity securities are classified as "investment securities" or "other 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 profit or loss. From 1st January 2005 onwards, the Group has classified and measured its 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". "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. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Financial Instruments *(Continued)*

(ii) Financial assets and financial liabilities other than equity securities

From 1st January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than equity securities (which were previously outside the scope of SSAP24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 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". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

(iii) Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Summary of the effects of the changes in accounting policies

(i) The cumulative effects of the application of the new HKFRSs on 31st December 2004 and 1st January 2005 are summarised below:

	As at 31st December 2004 (originally stated)	Retrospective adjustments		As at 31st December 2004 (restated)	Prospective adjustments	As at 1st January 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		HKAS 1	HKAS 17		HKAS 32 & 39	
Balance sheet items						
Property, plant and equipment	130,016	–	(15,372)	114,644	–	114,644
Prepaid lease payments (current and non-current)	–	–	15,390	15,390	–	15,390
Intangible assets	1,332	–	(18)	1,314	–	1,314
Available-for-sale financial assets	–	–	–	–	6,366	6,366
Investments in securities (non-current)	6,366	–	–	6,366	(6,366)	–
Financial assets at fair value through profit or loss	–	–	–	–	211,565	211,565
Investments in securities (current)	211,565	–	–	211,565	(211,565)	–
Other assets	413,950	–	–	413,950	–	413,950
Other liabilities	(427,357)	–	–	(427,357)	–	(427,357)
Total effect on assets and liabilities	335,872	–	–	335,872	–	335,872
Share capital	40,000	–	–	40,000	–	40,000
Accumulated losses	(111,866)	–	–	(111,866)	–	(111,866)
Other reserves	394,212	–	–	394,212	–	394,212
Minority interests	–	13,526	–	13,526	–	13,526
Total effect on equity	322,346	13,526	–	335,872	–	335,872
Minority interests	13,526	(13,526)	–	–	–	–

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Summary of the effects of the changes in accounting policies *(Continued)*

(ii) The financial effects of the application of the new HKFRSs to the Group's equity on 1st January 2004 are summarised below:

	As originally stated	HKAS 1	As restated
	HK$'000	HK$'000	HK$'000
Share capital	40,000	–	40,000
Retained profits	37,929	–	37,929
Other reserves	394,559	–	394,559
Minority interests	–	9,091	9,091
Total effects on equity	472,488	9,091	481,579

(iii) The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards or interpretations will have no or any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosure
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	The effects of changes in foreign exchange rate – net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial instruments disclosures
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-company transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Revenue recognition

Sales of goods, net of value added tax where applicable, are recognised when goods are delivered and title has passed.

Interest income is accrued on a timely basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

(c) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

Construction in progress are stated at cost less any identified impairment loss. Cost comprises land costs and the related construction and borrowing costs, as appropriate. The cost of construction in progress will not be amortised until they are put into use and are transferred to a specific category of property, plant and equipment when the construction is completed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Buildings situated on leasehold land	3% or over the term of the lease, if shorter
Leasehold improvements	33% or over the term of the lease, if shorter
Office equipment, furniture and fixtures	20% – 33%
Plant and machinery	10%
Motor vehicles	10%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets or, where shorter, the term of the relevant lease.

(d) Assets held under leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

(e) Intangible assets

Patents, trademarks and film and musical recording rights are measured initially at cost less any identified impairment loss and amortised on a straight-line basis over their estimated useful lives. On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Interests in subsidiaries

A subsidiary is a company controlled by the Company. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

In the Company's balance sheet, an interests in subsidiaries is stated at cost less impairment losses, unless the investment is classified as held for sale.

(g) Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

(k) Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rate for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserves. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

(l) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans including the mandatory provident and pension schemes in jurisdictions other than Hong Kong and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values and charged as an expense as they fall due.

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Taxation *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(o) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the assets' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Equity settled share-based payment transactions
Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

(p) Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

(q) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3 to the financial statements, management has made the following judgements that have significant effect on the amount recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. Management will reassess the estimates by the balance sheet date.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Renminbi (RMB) and United States Dollars (USD). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. Hong Kong Dollars against RMB and USD were relatively stable during the year and as a result, the Group considers it has no material foreign risk.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

The Group's fair value interest rate risk relates to fixed-rate and variable-rate borrowings (see note 31 for details of these borrowings). The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank and other borrowings and obligations under finance leases. The interest rates and terms of repayment of bank and other borrowings and obligations under finance leases of the Group are disclosed in notes 31 and 30 respectively.

The Group has not used any interest rate swaps to hedge its exposure in interest rate risk.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of bank and cash balances, trade and other receivables, and loans and interest receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents to meet its commitments over the next year in accordance with its strategic plan.

6. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into two major operating divisions – information home appliances and electronic components. These divisions are the basis on which the Group reports its primary segment information.

The Group is organised into two main business segments:

- Information home appliances – manufacture, sales and distribution of audio-visual products, information home appliances and complimentary products to the consumer market;

- Electronic components – sales and distribution of electronic components.

Other operations of the Group mainly comprise selling to business partners, none of which are of a sufficient size to be reported separately.

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

An analysis of the Group's turnover and operating results and segment assets and liabilities by business segments is as follows:

For the year ended 31st December 2005

	Information home appliances HK$'000	Electronic components HK$'000	Other operations HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER					
External sales	176,644	707,998	9,751	–	894,393
Inter-segment sales*	225,218	119,077	3,990	(348,285)	–
Total	401,862	827,075	13,741	(348,285)	894,393
RESULTS					
Segment results	21,877	77	(2,135)	–	19,819
Unallocated income					16,550
Other income					63,343
Fair value gain on investment properties					13,200
Allowance for loan receivables					(1,887)
Other unallocated expenses					(22,554)
Profit from operations					88,471
Finance costs					(8,778)
Share of results of associates					(147)
Gain on disposal of a subsidiary					27
Profit before taxation					79,573
Taxation					(4,271)
Net profit for the year					75,302

* *Inter-segment sales were charged at terms determined and agreed between the Group companies.*

6. SEGMENT INFORMATION *(Continued)*

Business segments ***(Continued)***

As at 31st December 2005

	Information home appliances HK$'000	Electronic components HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	187,661	225,885	1,984	415,530
Unallocated assets				326,395
Total assets				741,925
LIABILITIES				
Segment liabilities	22,703	179,569	1,077	203,349
Unallocated liabilities				122,910
Total liabilities				326,259
OTHER INFORMATION				
Capital additions	8,697	3,442	426	12,565
Depreciation and amortisation	6,258	1,204	1,242	8,704
Allowance for inventories	2,668	9,838	–	12,506
Allowance for bad and doubtful debts	450	605	–	1,055

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31st December 2004

	Information home appliances HK$'000	Electronic components HK$'000	Other operations HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER					
External sales	183,601	468,293	24,674	–	676,568
Inter-segment sales*	126,280	134,576	7,714	(268,570)	–
Total	309,881	602,869	32,388	(268,570)	676,568
RESULTS					
Segment results	(6,247)	4,343	(8,385)	–	(10,289)
Unallocated income					15,182
Allowance for bad and doubtful debts					(14,120)
Impairment loss recognised on other assets					(61,310)
Allowance for loans receivables					(45,029)
Other unallocated expenses					(7,902)
Loss from operations					(123,468)
Finance costs					(7,606)
Share of results of associates					(2,256)
Loss before taxation					(133,330)
Taxation					(2,030)
Net loss for the year					(135,360)

* *Inter-segment sales were charged at terms determined and agreed between the Group companies.*

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

As at 31st December 2004

	Information home appliances HK$'000	Electronic components HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	117,746	128,641	13,059	259,446
Interests in associates				753
Unallocated assets				503,030
Total assets				763,229
LIABILITIES				
Segment liabilities	45,184	99,127	6,086	150,397
Unallocated liabilities				276,960
Total liabilities				427,357
OTHER INFORMATION				
Capital additions	73,972	7,962	4,623	86,557
Depreciation and amortisation	4,646	371	1,324	6,341
Allowance for/(reversal of allowance for) inventories	3,316	4,199	(1,013)	6,502
Allowance for bad and doubtful debts *(Note)*	300	2,179	–	2,479

Note: During the year, allowance for bad and doubtful debts, impairment loss recognised on other assets and allowance for loans receivables amounting to approximately HK$14,120,000, HK$61,310,000 and HK$45,029,000 respectively were included in the unallocated expenses.

6. SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's information home appliances division is located in the PRC and its products are also distributed in the PRC, Hong Kong and other countries. The electronic components division is mainly located in Hong Kong and its goods are distributed in the PRC, Hong Kong and other countries.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods:

	Turnover	
	2005	2004
	HK$'000	HK$'000
The PRC	**515,148**	440,862
Hong Kong	**300,591**	215,702
Other countries	**78,654**	20,004
	894,393	676,568

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment and intangible assets**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**429,237**	559,128	**11,206**	76,556
Hong Kong	**308,788**	200,201	**1,359**	10,001
Other countries	**3,900**	3,900	**–**	–
	741,925	763,229	**12,565**	86,557

7. OTHER INCOME

As explained in note 26 in regard to two bank loans amounting to RMB60,000,000 (approximately HKD56,969,000) and RMB5,000,000 (approximately HKD4,747,000) respectively, the Group entered into an agreement in July 2005 with Xing Yip Industrial Bank Co., Ltd. ("Xing Yip Bank"), Shenzhen Jiangnan Industrial Development Co., Ltd. ("JI") and Shanshui Jianlibao Health Industry Investment Co., Ltd. ("SJHII") by which two bank loans and the interests thereon due by the Group to Xing Yip Bank were assigned to JI. As such, the Group was released from the obligation to repay the two bank loans and the interests thereon in aggregate of approximately HK$63,343,000. The amount was recognised as other income by the Group in 2005.

8. OTHER OPERATING INCOME

	2005 HK$'000	(As restated) 2004 HK$'000
Dividend income	**6,791**	–
Gains on disposal of financial assets at fair value through profit or loss	**147**	–
Gains on disposal of investments in securities	**–**	604
Interest income	**1,551**	9,462
Interest income from available-for-sales financial assets	**40**	–
Interest income from investments in securities	**–**	20
Net unrealised holding gains on financial assets at fair value through profit or loss	**315**	–
Net unrealised holding gains on investment in securities	**–**	374
Rental income	**166**	–
Sundry income	**7,540**	4,722
	16,550	15,182

9. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations has been arrived at after charging/(crediting):

	2005 HK$'000	(As restated) 2004 HK$'000
Auditors' remuneration	**880**	1,456
Allowance for bad and doubtful debts	**1,055**	16,599
Allowance for loans receivables	**1,887**	45,029
Amortisation of intangible assets (included in general and administrative expenses)	**882**	2,627
Amortisation of prepaid lease payments	**315**	307
Depreciation of property, plant and equipment	**7,507**	3,407
Cost of inventories	**822,621**	636,080
Loss on disposal of associates	**606**	–
Impairment loss recognised on other assets	**–**	61,310
Loss on disposal of property, plant and equipment	**–**	5
Allowance for inventories	**12,506**	6,502
Rental income from investment properties less direct outgoings	**(171)**	–
Research and development costs	**6,368**	8,412
Directors' emoluments (note 10)	**1,409**	1,100
Other staff costs	**15,943**	14,647
Retirement benefits scheme contributions (other than those included in the Directors' emoluments)	**1,409**	1,339
Total staff costs	**18,761**	17,086

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2004: seven) Directors were as follows:

		Other emoluments		
Name of directors	**Fees**	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Zhu Wei Sha	–	420	–	420
Chen Fu Rong	–	127	4	131
Shi Guang Rong	–	300	3	303
Wang An Zhong	–	131	7	138
Independent non-executive directors				
Wu Jia Jun	47	–	–	47
Zhong Peng Rong	47	–	–	47
Ye Lian Ru	14	–	–	14
Total for 2004	108	978	14	1,100
Executive directors				
Zhu Wei Sha	–	585	–	585
Chen Fu Rong	–	131	4	135
Shi Guang Rong	–	333	12	345
Wang An Zhong	–	131	10	141
Independent non-executive directors				
Wu Jia Jun	68	–	–	68
Zhong Peng Rong	68	–	–	68
Shen Yan	67	–	–	67
Ye Lian Ru	–	–	–	–
Total for 2005	**203**	**1,180**	**26**	**1,409**

10. DIRECTORS' EMOLUMENTS *(Continued)*

During the year, no emoluments were paid by the Group to any Director as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments during the year.

11. EMPLOYEES' EMOLUMENTS

During the year, one Director (2004: one) is included in the five highest paid individuals of the Group. Details of Directors' emoluments are set out in note 10 above. The aggregate emoluments of the four (2004: four) highest paid individuals, who are employees of the Group, are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,555**	2,560
Retirement benefits scheme contributions	**36**	36
	2,591	2,596

The emoluments of each of the five highest paid individuals for both years were less than HK$1,000,000.

12. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on loans wholly repayable within five years:		
– Bank loans	**7,572**	8,177
– Other loans	**1,056**	188
– Obligations under finance leases	**–**	48
	8,628	8,413
Interest on bank loans repayable over five years	**150**	47
Total borrowing costs	**8,778**	8,460
Less: amounts capitalised	**–**	(854)
	8,778	7,606

13. TAXATION

Taxation represents Hong Kong Profits Tax calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next consecutive three years whilst a PRC subsidiary is exempted from PRC income tax for three years starting from the year it commenced business, followed by a 50% reduction on a tax rate of 15% for the next consecutive three years on the assessable income. No provision for PRC income tax has been made in the financial statements as certain of the PRC subsidiaries were exempted from PRC income tax and certain of the PRC subsidiaries have no assessable profit during the year (2004: Nil).

	2005	2004
	HK$'000	HK$'000
Profit/(loss) before taxation	**79,573**	(133,330)
Tax at the domestic income tax rate of 17.5%	**13,925**	(23,333)
Tax effect of expenses that are not deductible in determining taxable profit	**17,409**	20,226
Tax effect of income that are not taxable in determining taxable profit	**(31,110)**	(1,620)
Overprovision in respect of prior year	**(32)**	–
Tax effect of utilisation of tax loss not previously recognised	**1,334**	(391)
Tax effect of additional tax losses not recognised	**7,668**	9,524
Effect of tax exemptions granted to PRC subsidiaries	**(8,719)**	(2,448)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,716**	72
Others	**80**	–
Tax expense for the year	**4,271**	2,030

At 31st December 2005, the Group has not recognised deferred tax assets in respect of cumulative unused tax losses of approximately HK$123,010,000 (2004: approximately HK$116,522,000) as it is not probable that future taxable profits against which the losses can be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

14. DIVIDEND

	2005	2004
	HK$'000	HK$'000
2003 final dividend paid of HK2.5 cents per share	**–**	10,000

No dividend was proposed during 2005, nor has any dividend been proposed since the balance sheet date.

15. EARNING/(LOSS) PER SHARE

The calculation of the basic earning/(loss) per share attributable to equity holders of the parent is based on the net profit for the year of approximately HK$68,320,000 (2004: net loss of approximately HK$139,795,000) and on 400,000,000 (2004: 400,000,000) ordinary shares in issue during the year.

No diluted earning per share has been presented for the year ended 31st December 2005 because the exercise price of the Company's share options was higher than the average market price for shares for 2005.

No diluted loss per share has been presented for the year ended 31st December 2004 as the assumed exercise of the Company's share options would result in a decrease in loss per share.

16. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	HK$'000
At 1st January	**–**	–
Reclassification from building (note 17)	**5,870**	–
Reclassification from prepaid lease payments (note 18)	**2,730**	–
Fair value gain	**13,200**	–
At 31st December	**21,800**	–

The investment properties are held under medium-term leases and situated in Hong Kong. The investment properties were revalued as at 31st December 2005 on the basis of its open market value by an independent professional firm of qualified property valuers who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The fair value gain during the year amounted to approximately HK$13,200,000 was credited to the consolidated income statement.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Office equipment, furniture and fixtures	Plant and machinery	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:						
At 1st January 2005						
– as previously reported *(Note (ii))*	109,322	1,410	6,604	19,435	3,335	140,106
– Effect of adopting HKAS 17	(15,821)	–	–	–	–	(15,821)
	93,501	1,410	6,604	19,435	3,335	124,285
Exchange adjustments	1,852	15	118	424	68	2,477
Additions	61	2,696	1,279	7,264	63	11,363
Transfer	(10,403)	3,107	245	7,051	–	–
Disposals	–	–	(609)	–	–	(609)
Reclassification to investment properties (note 16)	(5,870)	–	–	–	–	(5,870)
At 31st December 2005	**79,141**	**7,228**	**7,637**	**34,174**	**3,466**	**131,646**
Accumulated depreciation:						
At 1st January 2005						
– as previously reported	1,744	920	3,933	2,152	1,341	10,090
– Effect of adopting HKAS 17	(449)	–	–	–	–	(449)
	1,295	920	3,933	2,152	1,341	9,641
Exchange adjustments	25	5	65	46	27	168
Reclassification to investment properties (note 16)	–	–	–	–	–	–
Charge for the year	2,540	483	1,137	3,001	346	7,507
Eliminated on disposals	–	–	(566)	–	–	(566)
At 31st December 2005	**3,860**	**1,408**	**4,569**	**5,199**	**1,714**	**16,750**
Net book value:						
At 31st December 2005	**75,281**	**5,820**	**3,068**	**28,975**	**1,752**	**114,896**
At 31st December 2004	92,206	490	2,671	17,283	1,994	114,644

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes:

(i) The net book values of buildings shown above comprises:

	2005	(As restated) 2004
	HK$'000	HK$'000
Buildings situated in Hong Kong and held under medium-term leases	–	5,870
Buildings situated in the PRC and held under medium-term leases	75,281	86,336
	75,281	92,206

The net book value of the Group's plant and machinery includes an amount of approximately HK$4,046,000 (2004: approximately HK$4,483,000) in respect of assets held under finance leases.

(ii) Amount of buildings included the land element of the buildings which are now disclosed as prepaid lease payments (note 18).

18. PREPAID LEASE PAYMENTS

	Group	
		(As restated)
	2005	2004
	HK$'000	HK$'000
Net book value at 1st January		
– Effect of adopting HKAS 17	15,390	15,697
Net book value at 31st December	15,390	15,697
Amortisation	(315)	(307)
Exchange realignment	267	–
Reclassification to investment properties (note 16)	(2,730)	–
	12,612	15,390
Current portion including in current assets	(297)	(372)
Non-current portion including in non-current assets	12,315	15,018

The prepaid lease payments is held under medium term lease and situated in Hong Kong and the PRC. The cost of the leasehold lands situated in Hong Kong and the PRC were Nil (2004: approximately HK$2,730,000) and HK$13,456,000 (2004: approximately HK$13,177,000) respectively.

19. INTANGIBLE ASSETS

Group

	Patents and trademarks HK$'000	Film and musical recording rights HK$'000	Prepaid lease payments HK$'000	Total HK$'000
Cost:				
At 1st January 2005				
– as previously reported	6,412	4,453	86	10,951
– Effect of adopting HKAS 17	–	–	(86)	(86)
	6,412	4,453	–	10,865
Exchange adjustments	109	94	–	203
Additions	–	1,202	–	1,202
At 31st December 2005	**6,521**	**5,749**	**–**	**12,270**
Accumulated amortisation:				
At 1st January 2005				
– as previously reported	5,608	3,943	68	9,619
– Effect of adopting HKAS 17	–	–	(68)	(68)
	5,608	3,943	–	9,551
Exchange adjustments	107	84	–	191
Charge for the year	228	654	–	882
At 31st December 2005	**5,943**	**4,681**	**–**	**10,624**
Net book value:				
At 31st December 2005	**578**	**1,068**	**–**	**1,646**
At 31st December 2004	804	510	–	1,314

19. INTANGIBLE ASSETS *(Continued)*

Patents and trademarks of the Group represents the cost paid for obtaining the right to use the licence in manufacturing of information home appliances.

Film and musical recording rights of the Group represents the cost paid for obtaining the right to use the content of films and musical in the information home appliances.

All of the Group's intangible assets were acquired from third parties and are amortised over two to five years.

20. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**176,000**	176,000
Loans to subsidiaries	**307,249**	199,094
Amounts due from subsidiaries	**50,293**	67,026
	533,542	442,120
Less: impairment loss recognised	**(153,400)**	(157,400)
	380,142	284,720

The loans to and amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Directors, the above amounts are unlikely to be repaid within one year from the balance sheet date and are therefore shown as non-current.

The Directors consider that in the light of the recurring operating losses of certain subsidiaries and unfavourable market conditions, the recoverable amount of these subsidiaries has been reduced to the estimated net realisable value of their identifiable net assets. Accordingly, an aggregate impairment loss of approximately HK$153,400,000 (2004: approximately HK$157,400,000) in respect of the Company's interests in subsidiaries, loans to and amounts due from subsidiaries was recognised.

Details of subsidiaries which principally affected the results, assets or liabilities of the Group as at 31st December 2005 are set out in note 43.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2005	2004
	HK$'000	HK$'000
Unlisted equity securities in:		
Hong Kong	**4,100**	–
Overseas	**2,000**	–
PRC	**266**	–
	6,366	–

Following the adoption of HKAS 39 in 2005, certain investment in securities were redesignated as available-for-sale financial assets on 1 January 2005. There were no such redesignation in 2004 as retrospective application of HKAS 39 is not permitted. The above unlisted equity securities in the PRC issued by private entities are measured at cost less impairment at each balance sheet date because the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

22. INVESTMENTS IN SECURITIES

Investments in securities as at 31st December 2005 are set out below. Upon the application of HKAS 39 on 1st January 2005, investments in securities and other investments were reclassified to categories under HKAS 39 (see notes 21 and 23 for details).

Group

	Investment in securities		Other investments		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
				(Note)		
Equity securities:						
– Unlisted	**–**	6,100	**–**	204,540	**–**	210,640
– Listed in Hong Kong	**–**	–	**–**	7,291	**–**	7,291
Total	**–**	6,100	**–**	211,831	**–**	217,931
Classified under:						
Current	**–**	–	**–**	211,565	**–**	211,565
Non-current	**–**	6,100	**–**	266	**–**	6,366
	–	6,100	**–**	211,831	**–**	217,931
Market value of listed securities	**–**	–	**–**	7,291	**–**	7,291

22. INVESTMENTS IN SECURITIES *(Continued)*

Note:

Pursuant to an agreement dated 10th August 2004, the Group through its wholly owned subsidiary, Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing") acquired 10.435% equity interest in JI, a company which holds, among others, domestic institutional shares of Ping An Insurance, at a consideration of RMB217,000,000 (equivalent to approximately HK$204,274,000) from SJHII, a company in which Mr. Zhu Wei Sha, a director of the Company, had an effective 8.1% equity interest. Mr. Zhu Wei Sha ceased to have any equity interests in SJHII after November 2004. The H shares of Ping An Insurance are listed on the Stock Exchange. The said consideration was determined with reference to the value of 51,000,000 domestic institutional shares of Ping An Insurance held directly by JI and indirectly invested therein by Golden Yuxing through its acquisition of the 10.435% equity interest in JI.

The purpose of the transaction was to enable the Group to acquire economic benefits in respect of 51,000,000 domestic institutional shares of Ping An Insurance through the share management agreement entered into amongst Golden Yuxing, JI and other shareholders of JI at the time, specifically to receive dividends attributable to the 51,000,000 domestic institutional shares of Ping An Insurance and to enable the Group to use such shares as security to support its own borrowings. Subsequently, the Group came to know about certain deficiencies in the share management agreement which, in turn, gave rise to uncertainties over the enforceability of the agreement under the PRC laws.

The above transaction constituted a very substantial acquisition under the GEM Listing Rules which required shareholders' prior approval before the acquisition was completed. The acquisition referred to above transaction was completed without the prior approval of the Company's shareholders and as such, the Company breached the GEM Listing Rules.

Although no notification has been served on the Group by PRC authority up to the date of this report, the Directors were informed by JI that the Foshan Police Bureau had requested the Shenzhen Industrial and Commercial Administration Bureau to refuse the transfer, pledge or sale of the 10.435% equity interest in JI held by Golden Yuxing.

Given the complexities involved, the Directors are considering various alternatives to rectify the position and further development in this respect will be announced as and when appropriate.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2005	2004
	HK$'000	HK$'000
Unlisted equity securities in the PRC (note 22)	**208,594**	–
Listed equity securities in Hong Kong	**3,311**	–
	211,905	–

Following the adoption of HKAS 39 in 2005, certain other investments were redesignated as financial assets through profit or loss on 1st January 2005. There were no such redesignation in 2004 as retrospective application of HKAS 39 is not permitted.

24. INTERESTS IN ASSOCIATES

	Group 2005 HK$'000	2004 HK$'000
Share of net assets	**–**	753

Details of the Group's associates at 31st December 2005 are as follows:

Name of associates	Form of structure	Place of incorporation	Proportion of equity interests held directly by the Group	Principal activities
NetAv Electronic Technology Limited	Incorporated	Cayman Islands	21%	Investment holding

During the year, the associates were in the progress of liquidation and the Directors are of the opinion that the associates does not have any future economic benefit and consider to make a full impairment loss of approximately HK$606,000. The amount was debited to the consolidated income statement.

25. INVENTORIES

	Group 2005 HK$'000	2004 HK$'000
Merchandise	**43,189**	36,702
Raw materials	**14,279**	17,411
Work-in-progress	**2,545**	3,663
Finished goods	**12,454**	19,467
	72,467	77,243

Included above are merchandise of approximately HK$1,597,000 (2004: approximately HK$1,849,000), raw materials of approximately HK$2,096,000 (2004: approximately HK$1,675,000) and finished goods of approximately HK$4,007,000 (2004: approximately HK$10,252,000) carried at net realisable values.

26. OTHER ASSETS

During the year ended 31st December 2003, the Group entered into an agreement pursuant to which an advance of RMB60,000,000 (approximately HK$56,604,000) was made to a non wholly owned subsidiary of SJHII by on-lending a same amount of bank loan borrowed by a wholly owned subsidiary of the Group, Foshan Zhixing Technology Co., Ltd. ("Zhixing"), from Xing Yip Bank. The bank loan was secured by 24,000,000 domestic institutional shares of Ping An Insurance held by JI pursuant to a request from SJHII which has an equity interest in JI. The advance bore interest at 5.21% per annum and was repayable on or before 27th November 2004. The advance was intended to be used by SJHII for investing in the domestic institutional shares of Ping An Insurance. Under the above-mentioned agreement, the Group was given the option (the "Option") to obtain approximately 30% interests in the above Ping An Insurance domestic institutional shares provided that the bank loan of RMB60,000,000 from Xing Yip Bank and the advance of RMB60,000,000 to the non wholly owned subsidiary of SJHII were settled and 24,000,000 domestic institutional shares of Ping An Insurance pledged to Xing Yip Bank was released. The Group was also given the right to request SJHII to buy back the Option at an agreed consideration.

During the year ended 31st December, 2004, a further RMB5,000,000 (approximately HK$4,706,000) was advanced to another non wholly owned subsidiary of SJHII.

The advance of RMB60,000,000 (approximately HK$56,604,000) was overdue for repayment and in view of the principal operating subsidiary of SJHII is being placed in receivership and control being taken over by the PRC government authorities, an impairment loss amounting to HK$61,310,000, representing the total amount of the advances made to the non wholly owned subsidiaries of SJHII, has been recognised as at 31st December 2004.

27. TRADE AND OTHER RECEIVABLES

	Group	
	2005	2004
	HK$'000	HK$'000
Trade receivables *(Note)*	**125,227**	72,002
Bills receivables	**1,313**	2,149
Prepayments, deposits and other receivables	**38,248**	26,278
	164,788	100,429

Note:

The Group allows its trade customers with an average credit period of 60 to 90 days. The aged analysis of trade receivables at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0-30 days	**62,073**	50,987
31-60 days	**48,681**	11,088
61-90 days	**5,444**	4,485
over 90 days	**14,012**	9,423
	130,210	75,983
Less: Allowance for bad and doubtful debts	**(4,983)**	(3,981)
	125,227	72,002

28. LOANS AND INTEREST RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans and other receivables	**46,916**	45,029	**46,916**	38,346
Allowance made	**(46,916)**	(45,029)	**(46,916)**	(38,346)
	–	–	**–**	–

The loans have been advanced to a third party, which are secured by shares in a company held by a third party (2004: secured by properties and shares in a company held by the third party), bear interest at 12% (2004: 12%) per annum. The maturity date of the loans have been extended from 30th December 2004 to 31st December 2005.

29. TRADE AND OTHER PAYABLES

	Group 2005 HK$'000	Group 2004 HK$'000
Trade payables *(Note)*	**179,447**	119,743
Other payables	**50,261**	66,626
Accruals	**9,397**	7,470
	239,105	193,839

Note:

The aged analysis of trade payables at the balance sheet date was as follows:

	Group 2005 HK$'000	Group 2004 HK$'000
0-30 days	**102,257**	55,821
31-60 days	**61,504**	48,606
61-90 days	**3,341**	6,379
over 90 days	**12,345**	8,937
	179,447	119,743

30. OBLIGATION UNDER FINANCE LEASE

	Minimum lease payments		Present value of minimum lease	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**1,578**	1,536	**1,471**	1,426
In the second to fifth years inclusive	**932**	2,444	**912**	2,373
	2,510	3,980	**2,383**	3,799
Less: future charges	**(127)**	(181)		
Present value of lease obligations	**2,383**	3,799		
Less: amount due within one year included under current liabilities			**(1,471)**	(1,426)
Amount due after one year			**912**	2,373

30. OBLIGATION UNDER FINANCE LEASE *(Continued)*

The average lease term is three years. For the year ended 31st December 2005, the effective borrowing rate was 6.25% (2004: 4%). Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangement have been entered into for contingent rental payments.

31. BANK AND OTHER LOANS

Bank and other loans comprises:

	Group	
	2005	2004
	HK$'000	HK$'000
Bank loans	**82,596**	226,246
Other loan	**–**	1,883
	82,596	228,129
Analysed as:		
Secured	**82,596**	225,533
Unsecured	**–**	2,596
	82,596	228,129

The above amounts bear interest at prevailing market rates:

	Group	
	2005	2004
	HK$'000	HK$'000
On demand or within one year	**77,080**	222,463
Between one to two years	**190**	244
Between two to five years	**637**	769
Over five years	**4,689**	4,653
	82,596	228,129
Less: amount due within one year included under current liabilities	**(77,080)**	(222,463)
Amounts due after one year	**5,516**	5,666

Bank loans include approximately HK$82,596,000 (2004: HK$226,246,000) fixed-rate borrowings which carry interest at 5.7%-5.8% (2004: 2.5%-5.8%) per annum.

32. SHARE CAPITAL

	Number of ordinary share of HK$0.10 each 2005 & 2004	Nominal value 2005 & 2004 HK$'000
Authorised:		
At beginning and end of the year	2,000,000,000	200,000
Issued and fully paid:		
At beginning and end of the year	400,000,000	40,000

33. SHARE OPTION SCHEME

Previous Scheme

Under the share option scheme approved by the shareholders of the Company on 18th January 2000 (the "Previous Scheme"), the Directors may, at their absolute discretion, within a period of ten years from 31st January 2000, invite continuous contract employees of the Group, including Executive Directors, to take up share options to subscribe for shares of the Company subject to the terms and conditions stipulated therein.

The principal purposes of the Previous Scheme are to recognise the significant contributions of the employees and Executive Directors to the growth of the Group by rewarding them with opportunities to obtain the ownership interest in the Company and to further motivate and give incentives to these persons to continue to contribute to the Group's long-term success and prosperity.

As at the date of this annual report, the total number of shares available for issue under the Previous Scheme was 40,000,000, representing 10% of the issued share capital of the Company. The maximum entitlement of any one employee cannot exceed 25% of the maximum aggregate number of shares issued and which may fall to be issued under the Previous Scheme. At 31st December 2005, the total number of shares in respect of which share options had been granted and remained outstanding under the Previous Scheme was 5,090,000 representing 1.3% of the shares of the Company in issue at that date.

An offer of the share options shall be deemed to have been accepted by way of consideration of HK$1.00 payable by the employee to the Company within 21 days from the date of offer of the share options. The exercise price of the share options is determined by the Directors, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the Company's shares of the five business days immediately preceding the date of grant and the nominal value of the shares of the Company.

The Previous Scheme, originally expiring on 31st January 2010, was early terminated on 18th May 2003. No further share options will be offered under the Previous Scheme upon its termination but its terms remain in full force and effect in respect of the outstanding share options previously granted.

33. SHARE OPTION SCHEME *(Continued)*

Previous Scheme *(Continued)*

Details of the movement of share options granted under the Previous Scheme during the two years ended 31st December 2005 to subscribe for the shares in the Company are as follows:

For the year ended 31st December 2005

				Number of share options				
	Date of grant	Exercisable period	Exercise price	At 1 January 2005	Exercised during the year	Granted during the year	Cancelled/ lapsed during the year	At 31st December 2005
			HK$					
Director								
– Mr. Wang An Zhong	28th November 2000	28th November 2001 – 27th November 2005	0.95	1,000,000	–	–	1,000,000	–
Continuous Contract Employees	27th June 2000	27th June 2001 – 26th June 2005	4.80	5,000,000	–	–	5,000,000	–
	28th November 2000	28th November 2001 – 27th November 2005	0.95	5,420,000	–	–	5,420,000	–
	3rd December 2000	3rd December 2001 – 2nd December 2005	0.95	550,000	–	–	550,000	–
	4th December 2000	4th December 2001 – 3rd December 2005	0.95	140,000	–	–	140,000	–
	9th February 2001	9th February 2002 – 8th February 2006	0.83	3,110,000	–	–	–	**3,110,000**
	11th April 2001	11th April 2002 – 10th April 2006	0.75	1,980,000	–	–	–	**1,980,000**
Total				17,200,000	–	–	12,110,000	**5,090,000**

33. SHARE OPTION SCHEME *(Continued)*

Previous Scheme *(Continued)*

For the year ended 31st December 2004

				Number of share options				
	Date of grant	Exercisable period	Exercise price	At 1 January 2004	Exercised during the year	Granted during the year	Cancelled/ lapsed during the year	At 31st December 2004
			HK$					
Director								
– Mr. Wang An Zhong	28th November 2000	28th November 2001 – 27th November 2005	0.95	1,000,000	–	–	–	1,000,000
Continuous Contract Employees	27th June 2000	27th June 2001 – 26th June 2005	4.80	5,000,000	–	–	–	5,000,000
	28th November 2000	28th November 2001 – 27th November 2005	0.95	5,420,000	–	–	–	5,420,000
	3rd December 2000	3rd December 2001 – 2nd December 2005	0.95	550,000	–	–	–	550,000
	4th December 2000	4th December 2001 – 3rd December 2005	0.95	140,000	–	–	–	140,000
	9th February 2001	9th February 2002 – 8th February 2006	0.83	3,110,000	–	–	–	3,110,000
	11th April 2001	11th April 2002 – 10th April 2006	0.75	1,980,000	–	–	–	1,980,000
Total				17,200,000	–	–	–	17,200,000

Existing Scheme

The Company's new share option scheme (the "Existing Scheme"), which was adopted pursuant to the ordinary resolutions passed by the shareholders of the Company on 18th May 2003 for the purpose of providing incentives to certain eligible participants and unless otherwise cancelled or amended, will expire on 17th May 2013. Under the Existing Scheme, the Directors may grant share options to eligible employees, including Executive Directors, or any persons or entities who have contributed or will contribute to the growth and development of the Group, to subscribe for shares in the Company.

33. SHARE OPTION SCHEME *(Continued)*

Existing Scheme *(Continued)*

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants (the "Eligible Participants"), to take up share options to subscribe for the shares of the Company:

(i) any employee or officer (whether full time or part time, and including any Executive Director) of any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity");

(ii) any non-executive Directors (including Independent Non-executive Directors) of any member of the Group or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of any member of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; and

(vi) any holder of any securities or securities convertible into any securities issued by any member of the Group or any Invested Entity,

and, for the purposes of the Existing Scheme, the share options may be granted to any company wholly owned by one or more such Eligible Participants.

The total number of shares in respect of which share options may be granted under the Existing Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholder' approval of the Existing Scheme (the "Scheme Mandate Limited") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of outstanding options granted and yet to be exercised under the Existing Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. As at the date of this annual report, the total number of shares available for issue under the Existing Scheme is 40,000,000, which represents 10% of the issued share capital of the Company. The number of shares in respect of which options may be granted to any Eligible Participant in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of share options to any Director, chief executive or substantial shareholder must be approved by Independent Non-executive Directors. Where any grant of share options to a substantial shareholder or an Independent Non-executive Director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK$5,000,000 in the 12-month period up to the date of grant, then the grant must be approved in advance by the Company' shareholders.

33. SHARE OPTION SCHEME *(Continued)*

Existing Scheme *(Continued)*

An offer of the share options shall be deemed to have accepted by way of consideration of HK$1.00 payable by the Eligible Participants offer of the share options within 21 days from the date of offer of the share options. A share option may be exercised in accordance with the terms of the Existing Scheme at any time during the effective period of the Existing Scheme to be notified by the Directors which shall not be later than 10 years from the date of grant. There is no general requirement regarding any minimum period of time a grantee must hold a share option granted to him before exercising such share option. However, the Directors may determine from time to time to impose such a requirement of such a minimum period provided that the date at the end of such minimum period of time must be earlier than (a) the date on which such share option lapses; and (b) 10 years from the date of grant of that share option. The exercise price is determined by the Directors, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the average closing price of the Company's share for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company.

No options have been granted under the Existing Scheme since the date of its adoption.

34. RESERVES

	Company			
	Share premium	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2004	381,713	146,000	(34,941)	492,772
2003 final dividends paid	–	–	(10,000)	(10,000)
Net loss for the year	–	–	(142,142)	(142,142)
At 31st December 2004	381,713	146,000	(187,083)	340,630
Net loss for the year	–	–	(4,846)	(4,846)
At 31st December 2005	**381,713**	**146,000**	**(191,929)**	**335,784**

The contributed surplus represents the difference between the underlying net assets of the subsidiaries which were acquired by the Company and the nominal amount of the share capital issued by the Company for the acquisition at the time of the Group reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31st December 2005, no reserve (2004: Nil) is available for distribution to equity holders of the parent.

35. DISPOSAL OF A SUBSIDIARY

	2005 HK$'000	2004 HK$'000
Net assets disposed of:		
Property, plant and equipment	**25**	–
Inventories	**220**	–
Trade and other receivables	**712**	–
Bank balances and cash	**640**	–
Trade and other payables	**(78)**	–
Taxation payable	**(64)**	–
Net assets	**1,455**	–
Less: minority interests	**(582)**	–
	873	–
Gain on disposal of a subsidiary	**27**	–
Total consideration	**900**	–
Satisfied by:		
Cash consideration received	**900**	–
Analysis of the net inflow of cash and cash equivalents in connection with the disposal of a subsidiary		
Cash consideration received	**900**	–
Bank balances and cash disposed of	**(640)**	–
Net inflow of cash and cash equivalents	**260**	–

The subsidiary disposed of during the year did not have any significant impact on the Group's cash flows, turnover and operating results.

36. PLEDGED OF ASSETS

At 31st December 2005, the following assets were pledged to secure banking facilities and other loan granted to the Group:

(a) Bank deposits of the Group and the Company of approximately HK$35,225,000 (2004: approximately HK$107,549,000) and Nil (2004: approximately HK$90,315,000), respectively;

(b) Available-for-sales financial assets of the Group with the carrying value of approximately HK$5,900,000 (2004: investments in securities of approximately HK$5,900,000);

(c) Financial assets at fair value through profit or loss of the Group with carrying value of approximately HK$3,311,000 (2004: Nil);

(d) Trade receivables of the Group with carrying value of approximately HK$30,994,000 (2004: approximately HK$12,150,000);

(e) Investment properties of the Group with carrying value of approximately HK$21,800,000 (2004: Nil); and

(f) Prepaid lease payments and building of the Group with carrying value of approximately HK$56,532,000 (2004: approximately HK$10,453,000).

37. OPERATING LEASE COMMITMENTS

(a) The Group as lessee

The Group made minimum lease payments of approximately HK$3,502,000 (2004: approximately HK$5,936,000) under operating leases during the year in respect of office properties, warehouses and factories.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**2,364**	4,349
In the second to fifth year inclusive	**817**	1,896
Over five years	**–**	3,164
	3,181	9,409

Leases are negotiated for terms of ranging from one to thirty years with fixed rentals.

37. OPERATING LEASE COMMITMENTS *(Continued)*

(b) The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**996**	–
In the second to fifth year inclusive	**1,577**	–
	2,573	–

38. CAPITAL COMMITMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of intangible assets contracted for but not provided in the financial statements	**240**	–

39. CONTINGENT LIABILITIES

(i) Guarantees

(a) At 31st December 2005, the Company had given guarantees to a third party in respect of a loan granted to a subsidiary of Nil (2004: approximately HK$3,765,000).

(b) At 31st December 2005, the Company had given guarantees to banks in respect of bank facilities granted to certain subsidiaries of approximately HK$12,903,000 (2004: approximately HK$20,770,000).

(c) At 31st December 2005, a subsidiary had given guarantees in respect of bank facilities granted to itself and to another subsidiary of approximately HK$38,639,000 (2004: Nil).

(d) A subsidiary had given guarantees to a bank in respect of a loan granted to an unrelated third party. As at 31st December 2005, though a provision has been made in respect of the principal, there remained an outstanding interest of approximately HK$1,122,000 (2004: approximately HK$743,000) not provided.

39. CONTINGENT LIABILITIES *(Continued)*

(ii) Outstanding litigation

At 31st December 2004, Xing Yip Bank initiated legal action ("Xing Yip Action") to the Guangzhou Province Foshan City Immediate People's Court (the "Court") against Zhixing for the repayment of bank loan amounting to RMB60,000,000 borrowed by Zhixing. Under the Xing Yip Action, Xing Yip Bank alleged that Zhixing had failed to repay bank loan of RMB60,000,000 within the period granted by Xing Yip Bank. Under the judgement of the Court in 2005, Zhixing was responsible for the repayment of the bank loan and the 24,000,000 domestic institutional shares of Ping An Insurance pledged by JI (see note 22) will be subject to realisation by Xing Yip Bank in order to satisfy the repayment of the bank loan.

The Directors, after consultation with PRC legal counsels, are of the view that the Group has properly recorded the bank loan of RMB60,000,000 and the value of the 24,000,000 domestic institutional shares of Ping An Insurance pledged by JI is sufficient to cover the outstanding bank loan of RMB60,000,000 together with the related interest and the costs of legal proceedings and, accordingly, no further provision have been accounted for in the financial statements.

40. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to income statements of approximately HK$1,435,000 (2004: approximately HK$1,353,000) represents contribution payable to these schemes by the Group in respect of the current year.

41. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of assets with total capital value at the inception of the leases of Nil (2004: approximately HK$4,369,000) acquired by the Group.

During the year, the Group re-assigned a loan receivable of Nil (2004: approximately HK$7,063,000) as partial payment for purchase of investments in securities.

42. RELATED PARTY TRANSACTIONS

During the year ended 31st December 2004, Golden Yuxing entered into agreements with SJHII, in which Mr. Zhu Wei Sha, a director of the Company, has an effective 8.1% equity interest, for the acquisition of a 10.435% equity interest in JI at a consideration of RMB217,000,000 (approximately HK$204,274,000). Details of the transaction are set out in note 22.

During the year ended 31st December, 2005, Yuxing Technology Company Limited entered into agreements with a financial controller of Sheng Bang Qiang Dian Electronics (Shenzhen) Co., Ltd, a wholly owned subsidiary of the Group, for the consideration of HK$900,000. Details of the transactions are set out in note 35.

43. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December 2005 are as follows:

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued share capital/ registered capital	Interest held
Direct subsidiaries:				
First I-Tech Limited	Republic of Mauritius ("Mauritius")/limited liability company	Investment holding/ Hong Kong ("HK")	1 ordinary share of US$1	100%
Yuxing Electronics Company Limited	British Virgin Islands ("BVI")/limited liability company	Investment holding/ the PRC and HK	2,000 ordinary shares of US$1 each	100%
Indirect subsidiaries:				
Beijing Yuxing Software Co., Ltd.	The PRC/Foreign wholly owned enterprise	Research and development and software design/ the PRC	RMB10,610,850	100%
E-Century Investment Limited	Mauritius/limited liability company	Holding of intangible assets/the PRC	1 ordinary share of US$1	100%
Zhixing	The PRC/Foreign wholly owned enterprise	Research and development of broadband communication/the PRC	RMB53,512,424	100%

43. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued share capital/ registered capital	Interest held
Indirect subsidiaries: *(Continued)*				
Golden Yuxing	The PRC/Sino-foreign co-operative joint venture	Research and development, design, marketing, distribution and sales of information appliances/ the PRC	US$4,582,000	100%*
Hi-Level Technology Limited	Hong Kong/limited liability company	Trading and distribution of integrated circuits/HK	25,000,000 ordinary shares of HK$1 each	51%
Sheng Bang Qiang Dian Electronics (Shenzhen) Co., Ltd.	The PRC/Foreign wholly owned enterprise	Manufacturing, distribution and sales of information home appliances and electronic components/ the PRC	RMB50,000,000	100%
Sheng Bang Qian Dian Electronics (Zhong Shan) Limited	The PRC/Foreign wholly owned enterprise	Manufacturing, distribution and sales of information home appliances and electronic components/ the PRC	RMB48,000,000	100%
Video Innovation Technology Limited (Formerly as "Yangson Electronics Limited")	Hong Kong/limited liability company	Trading and distribution of integrated circuits/HK	500,000 ordinary shares of HK$1 each	51%
Yield Lasting Investments Ltd.	BVI/limited liability company	Property holding/HK	1 ordinary share of US$1	100%
Yuxing Technology Company Limited	Hong Kong/limited liability company	Trading and distribution of electronic components and investment holding/HK	2 ordinary shares of HK$1 each	100%

43. PRINCIPAL SUBSIDIARIES *(Continued)*

* Golden Yuxing was established on 27th December 1996 as a company with limited liability in the PRC, and became a Sino-foreign co-operative joint venture enterprise on 8th November 1999 pursuant to the group reorganisation. According to the relevant joint venture agreement, the Group is entitled to the entire profit of Golden Yuxing.

The above table contains only the particulars of subsidiaries of the Group which, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.