1. BASIS OF PREPARATION

a) Principal activities

The principal activity of the Company is investment holding. During the year, the Group's principal activities consisted of the design development, manufacture and sale of electronic products, the manufacture and sale of printed circuit boards ("PCBs"), the trading and distribution of electronic components and parts, the trading of listed equity investments, the provision of loan financing, and the manufacture and sale of optical products. There were no significant changes in the nature of the Group's principal activities during the year.

b) Basis of consolidation

The Group financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, 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 ("HKICPA") that are relevant to its operations. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provision, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Properties
HKAS-Int 15	Operating Leases-Incentives
HKAS-Int 21	Income taxes-recovery of revaluated non-depreciable assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 37, HKAS-Int 15, HKFRSs 2 and 4 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 33, 37, HKAS-Int 15 and HKFRSs 2 and 4 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

a) HKAS 17 Leases

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land was previously included in leasehold properties which are stated at fair value. In accordance with the provisions of HKAS 17, leasehold properties are split into a lease of land and a lease of building in proportion to the relative fair values of the interests in the land element and the building element of the lease at the inception of the lease. The lease premium for leasehold land is stated at cost and amortised over the period of the lease. HKAS 17 has been applied retrospectively.

Building portion of freehold and leasehold properties was previously stated at fair value. Following the adoption of HKAS 17 where leasehold land is subject to amortisation, the accounting policy on building is changed and buildings are now stated at valuation less accumulated depreciation and impairment. This change in accounting policy has been applied retrospectively.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

b) HKAS 40 Investment Properties

In prior years, the Group stated its investment properties at valuation and recorded the increase in valuation to the investment properties revaluation reserve. Decreases in the valuation were first set off against increases on earlier valuations on a portfolio basis and thereafter are expensed in the income statement. Moreover, investment properties held on leases with unexpired period of 20 years or less were depreciated over the remaining period of the lease.

The adoption of HKAS 40 has led to the changes in the fair value of investment properties being recorded in the income statement and the investment properties are no longer subject to depreciation where the unexpired periods of the lease are 20 years or less.

HKAS 40 is applied prospectively from 1 January 2005. Under the transitional provision of HKAS 40, the amount held in the investment property reserve at 1 January 2005 has been transferred to the Group's retained profits.

c) HKAS-Int 21 Income taxes – recovery of revaluated non-depreciable assets

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the deferred taxation of the Group's investment property. In accordance with the provision of HKAS-Int 21, the deferred tax liabilities arising from the revaluation of investment properties is measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset is expected to be recovered through sale. The charge in accounting policy has been applied retrospectively.

d) HKAS 32 Financial Instruments: disclosure and presentation and HKAS 39 financial instruments: recognition and measurement

HKAS 32 and HKAS 39 establish principles for disclosure, presentation, recognition and measurement of financial instruments, including non-derivative financial assets, non-derivative financial liabilities and derivative instruments for hedging activities. The Group has adopted HKAS 32 and HKAS 39 prospectively from 1 January 2005.

Under HKAS 39, financial assets are classified as "financial asses 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 the income statement 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. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

e) HKFRS 3 Business combinations; HKAS 36 impairment of assets and HKAS 38 intangible assets

The adoption has resulted in a change in accounting policy for goodwill. Goodwill was previously amortised on a straight-line basis over a period not exceeding 20 years, and assessed for impairment at each balance sheet date.

Under HKFRS 3, goodwill is no longer amortised. Instead, it is tested for impairment annually, or more frequently, if events or changes in circumstances indicate a possible impairment. Any excess of fair value of assets and liabilities acquired over cost is recognised immediately as income under HKFRS 3. However, HKFRS 3 requires, if an entity previously recognised goodwill as a deduction from equity, it shall not recognise that goodwill in the income statement when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired. There is no transitional arrangement for goodwill which has previously been eliminated against reserves as a matter of accounting policy.

HKFRS 3 is applied prospectively from 1 January 2005. Under the transitional provision of HKFRS 3, the Group has to cease amortisation of goodwill from 1 January 2005, and the negative goodwill previously recognised has to be derecognised as at 1 January 2005, with a corresponding adjustment to the opening retained profits.

f) New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following Standards or interpretations that have been issued but are not yet effective. The adoption of such Standards and Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 7	Financial Instruments – Disclosures

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

a) Effect on the consolidated income statement for the year ended 31 December 2005 and 2004

	Effect of adopting					
	HKAS 17	HKAS 40	HKAS-Int 21	HKASs 32/39	HKFRS 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005						
Increase in depreciation of property, plant and equipment	(418)	–	–	–	–	(418)
Decrease in amortisation of leasehold land and land use rights	97	–	–	–	–	97
Decrease in negative goodwill recognised as income	–	–	–	–	(13,062)	(13,062)
Decrease in reversal of previous revaluation deficits of leasehold buildings, net	(6)	–	–	–	–	(6)
Increase in net loss arising from fair value change of investment properties	–	(490)	–	–	–	(490)
Increase in deferred taxation in relation to fair value gains of investment properties	–	–	(620)	–	–	(620)
Decrease in deferred taxation in relation to disposal of investment properties	–	–	1,689	–	–	1,689
Decrease in profit for the year	(327)	(490)	1,069	–	(13,062)	(12,810)
Attributable to:						
Equity holders of the Company	(327)	(490)	1,069	–	(12,954)	(12,702)
Minority interests	–	–	–	–	(108)	(108)
	(327)	(490)	1,069	–	(13,062)	(12,810)

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

a) Effect on the consolidated income statement for the year ended 31 December 2005 and 2004 (continued)

	Effect of adopting					
	HKAS 17	**HKAS 40**	**HKAS-Int 21**	**HKASs 32/39**	**HKFRS 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2004						
Increase in depreciation of property, plant and equipment	(333)	–	–	–	–	(333)
Decrease in amortisation of leasehold land and land use right	14	–	–	–	–	14
Decrease in reversal of previous revaluation deficits of leasehold buildings, net	(1,497)	–	–	–	–	(1,497)
Decrease in profit for the year	(1,816)	–	–	–	–	(1,816)
Attributable to:						
Equity holders of the Company	(1,816)	–	–	–	–	(1,816)
Minority interests	–	–	–	–	–	–
	(1,816)	–	–	–	–	(1,816)

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

b) Effect on the consolidated balance sheet as at 31 December 2005 and 2004

	Effect of adopting					
	HKAS 17	**HKAS 40**	**HKAS-Int 21**	**HKASs 32/39**	**HKFRS 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2005						
Increase/(decrease) in:						
Assets						
Intangible assets	–	–	–	–	27,284	27,284
Available-for-sale financial assets	–	–	–	15,620	–	15,620
Property, plant and equipment	(418)	–	–	–	–	(418)
Leasehold land and land use rights	97	–	–	–	–	97
Liabilities						
Deferred tax liabilities	–	–	1,069	–	–	1,069
	(321)	–	1,069	15,620	27,284	43,652
Equity						
Property revaluation reserve	6	–	–	–	–	6
Investment property reserve	–	(7,473)	–	–	–	(7,473)
Revaluation reserve for available-for-sale financial assets	–	–	–	15,620	–	15,620
Retained profits	(327)	7,473	1,069	–	27,030	35,245
Minority interests	–	–	–	–	254	254
	(321)	–	1,069	15,620	27,284	43,652

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

b) Effect on the consolidated balance sheet as at 31 December 2005 and 2004 (continued)

	Effect of adopting					
	HKAS 17	**HKAS 40**	**HKAS-Int 21**	**HKASs 32/39**	**HKFRS 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2004						
Increase/(decrease) in:						
Assets						
Property, plant and equipment	(8,440)	–	–	–	–	(8,440)
Leasehold land and land use rights	10,559	–	–	–	–	10,559
Liabilities						
Deferred tax liabilities	–	–	(1,689)	–	–	(1,689)
	2,119	–	(1,689)	–	–	430
Equity						
Property revaluation reserve	(375)	–	–	–	–	(375)
Investment property reserve	–	–	(1,689)	–	–	(1,689)
Retained profits	2,494	–	–	–	–	2,494
	2,119	–	(1,689)	–	–	430

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Companies Ordinance. The financial statements are prepared under the historical cost convention as modified by certain properties and financial instruments, which are measured at revalued amounts or fair values. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the principal accounting policies adopted by the Group is set out below.

a) Subsidiaries

A subsidiary is a company in which the Group or Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. 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.

Investments in subsidiaries in the balance sheet are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted to the extent of dividends received and receivable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Subsidiaries (continued)

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

ii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company;

iii) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company; and

iv) a financial asset, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

c) Associates

An associate is a company in which the Group or the Company has significant influence and which is neither a subsidiary nor a joint venture of the Group or the Company.

The investments in associates are stated at cost less impairment losses. The results of associates are accounted for to the extent of dividends received and receivable.

The investments in associates are accounted for in the consolidated balance sheet under the equity method whereby the investments are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's or the Company's share of net assets of the associates. The results of the associates are accounted for in the consolidated income statement to the extent of the Group's or the Company's share of the associates' results of operation. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in the income statement.

On disposal of a cash generating unit, an associate or jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

e) Investment property

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include leasehold land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement.

f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	4%
Leasehold improvements	5 – 50%
Plant and machinery	6.67 – 20%
Furniture, fixtures and office equipment	10 – 20%
Motor vehicles	20%

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Property, plant and equipment and depreciation (continued)

Changes in the values of property, plant and equipment resulting from revaluations are dealt with, on an individual asset basis, as movements in the asset revaluation reserve. Deficits arising from revaluation, to the extent they cannot be offset against the revaluation surplus in respect of the same asset, are charged to the income statement. Any subsequent revaluation surplus is credited to income statement to the extent of the deficit previously charged.

The gain or loss on disposal or retirement of a property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

g) Impairment of assets

The Group's goodwill, other intangible assets and property, plant and equipment are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life of those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Properties held for sale

Properties held for sale are stated at the lower of carrying amount and net realisable value. Carrying amount is the lower of cost less impairment losses and valuation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expenses when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line method over the commercial lives of the underlying products not exceeding seven years, commencing from the date when the products are put into commercial production.

j) Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in equity securities held for trading purposes as short term investment and were stated at their fair values at the balance sheet date on an individual investment basis. Fair values are determined by reference to quoted market prices net of any discount which is deemed necessary by the directors to reflect the potential impact of the disposal of such shares in the case of substantial shareholdings. The gains or losses arising from changes in the fair value of a security are credited to or charged to the income statement in the period in which they arise.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets held for trading and derivative financial instruments that are not designated and effective hedging instruments. 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 the income statement in the period in which they arise.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial assets (continued)

ii) 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 accounts receivable, time deposits, staff housing loans and other receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's 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 asset's 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.

iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to-maturity if it is the intention of the Group's management to hold them until maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in the income statement.

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or 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 the income statement. Any impairment losses on available-for-sale financial assets are recognised in the income statement. Impairment losses on available-for-sale equity investments will not be reversed in subsequent periods.

For available-for-sale equity investments that do not have a quotes market price in an active market and whose fair value cannot be reliably measured, 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 the income statement 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 be reversed in subsequent periods.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) 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.

i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two sub-categories, including financial liabilities 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 liabilities 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.

ii) Other financial liabilities

Other financial liabilities including bank and other borrowings, floating rate notes, fixed rate notes and zero coupon notes are subsequently measured at amortised cost, using the effective interest rate method.

iii) Equity instruments

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

l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company or 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 expenditures 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Leases (as the lessee)

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the present value of the lease payments plus incidental payment, if any, to be borne by the lessee. A corresponding amount is recognised as a finance lease liability, irrespective or whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreement, i.e. depreciation methods and useful lives correspond to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs.

All other leases are treated as operating lease agreements. Operating lease payments are recognised as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

p) Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of probable future long services payments expected to be made. The provision is based on the best estimate of the probable future payments which has been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basis salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Employee benefits (continued)

Retirement benefits scheme (continued)

The employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of the state-sponsored retirement scheme operated by the government of the PRC.

Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 are recognised in the consolidated financial statements. The Group operates equity settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is ultimately recognised as an expense in income statement with a corresponding credit to additional paid-in capital, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as additional paid-in capital.

q) Related parties

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

r) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Cash and cash equivalents (continued)

For the purpose of the balance sheet, cash and bank balances and time deposits represent assets which are not restricted as to use.

s) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

i) From the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

ii) Interest, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

iii) From the sale of listed equity investments, on the trade day;

iv) From the sale of properties, when the legally binding sales contract is signed;

v) Dividends, when the shareholders' right to receive payment has been established; and

vi) Management fee, when the services are rendered.

t) Foreign currency translation

The consolidated financial statements are presented in Hong Kong Dollars, which is also the functional currency of the parent company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

In the consolidated financial statements, all separate financial statements of subsidiaries and jointly controlled entities, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rate at the balance sheet date. Income and expenses have been converted into the Group's presentation currency at the average rates over the reporting period. Any differences arising from this procedure have been charged/(credited) to the currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong dollars at the closing rate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Foreign currency translation (continued)

On exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

5. CRITICAL ACCOUNTING JUDEGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management has made various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical accounting judgements that can significantly affect the amounts recognised in the financial statements are set out below.

a) Estimate of fair value of investment properties

Investment properties were revalued at the balance sheet date on market value existing use basis by independent professional valuers or determined by the directors of the Company. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

b) Fair values of financial instruments

Financial instruments such as interest rate, foreign exchange and equity derivative instruments are carried at the balance sheet at fair value. The best evidence of fair value is quoted prices in an active market, where quoted prices are not available for a particular financial instrument, the Group uses the market values determined by independent financial institutions or internal or external valuation models to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgement by management, which may result in significantly different fair values and results. All significant financial valuation models are strictly controlled and regularly recalibrated and vetted.

c) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognised liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

a) Market risk

i) Foreign 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 United States dollars and Chinese Renminbi Yuan.

As the estimated foreign currency exposure in respect of committed future sales and purchases and estimated foreign currency exposure in respect of highly probable forecast sales and purchases is not significant, no hedging on foreign currency risk has been carried out during the year under review.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level.

ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss.

b) Credit risk

The Group's credit risks are primarily attributable to time deposits, trade and other receivables.

The Group's time deposits are deposited with banks of high credit quality in Hong Kong and the Group has exposure limit to any single financial institution.

For trade and other receivables, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount.

In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the holding company's board. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from bankers to meet its liquidity requirements in the short and longer term.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Interest rate risk

The Group manages its interest rate exposure based on interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. The Group does not expect any changes in interest rate which might materially affect the Group's result of operations.

7. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

i) The electronic products segment consists of the manufacture and sale of electronic products;

ii) The PCBs segment consists of the manufacture and sale of PCBs;

iii) The electronic components and parts segment consists of the trading and distribution of electronic components and parts;

iv) The listed equity investments segment consists of the trading of listed equity investments;

v) The provision of finance segment consists of the provision of loan financing services; and

vi) The optical products segment consists of the manufacture and sale of optical products.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

7. SEGMENT INFORMATION (CONTINUED)

a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Electronic products		PCBs		Electronic components and parts		Listed equity investments		Provision of finance		Optical products		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue																
Sales to eternal customers	**386,411**	391,632	**95,777**	108,992	**–**	–	**7,342**	15,515	**296**	107	**64,045**	174,890	**–**	–	**553,871**	691,136
Inter-segment sales	**–**	–	**–**	4,787	**20,066**	19,416	**–**	–	**4,439**	2,887	**–**	–	**(24,505)**	(27,090)	**–**	–
Other revenue	**2,795**	3,356	**2,963**	5,192	**–**	–	**132**	469	**89**	–	**10,832**	2,800	**–**	–	**16,811**	11,817
Total	**389,206**	394,988	**98,740**	118,971	**20,066**	19,416	**7,474**	15,984	**4,824**	2,994	**74,877**	177,690	**(24,505)**	(27,090)	**570,682**	702,953
Segment results	**18,489**	17,288	**(19,739)**	(18,328)	**(223)**	683	**(3,033)**	(3,607)	**(4,032)**	(5,800)	**(2,098)**	(5,345)	**(4,469)**	642	**(15,105)**	(14,467)
Interest, dividend income and unallocated gains															**9,385**	2,272
Negative goodwill recognised as income															**–**	13,062
(Loss)/Gain on disposal of properties held for sale															**(143)**	3,900
Gain on disposal of controlling interest in Swank															**42,244**	–
Gain on disposal of partial interest in Swank															**–**	8,458
Gain on disposal of investment properties															**2,715**	–
Reversal of previous revaluation deficits of leasehold buildings, net															**5,270**	3,346
Gain on disposal of interests in associates															**–**	10,900
Write back of over-provision against properties held for sale															**200**	3,150
Net loss arising from fair value change of investment properties															**(490)**	–
Unallocated expenses															**(4,081)**	(10,023)
Profit from operating activities															**39,995**	20,598
Impairment loss on a loan receivable															**(45,000)**	–
Share of profits less losses of associates															**1,997**	2,791
(Loss)/Profit before taxation															**(3,008)**	23,389
Taxation															**(1,520)**	(452)
(Loss)/Profit for the year															**(4,528)**	22,937

7. SEGMENT INFORMATION (CONTINUED)

a) Business segments (continued)

Group

	Electronic products		PCBs		Electronic components and parts		Listed equity investments		Provision of finance		Optical products		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**228,602**	183,207	**110,409**	123,474	**3,909**	1,222	**40,704**	23,884	**51,769**	101,612	**–**	195,056	**(56,676)**	(16,641)	**378,717**	611,814
Interests in associates	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**156,892**	37,220	**–**	–	**156,892**	37,220
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**395,254**	271,731
Total assets															**930,863**	920,765
Segment liabilities	**44,170**	31,309	**87,895**	80,327	**3,875**	1,396	**11**	42	**122**	123	**–**	41,356	**(29,000)**	(16,600)	**107,073**	137,953
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**27,594**	22,025
Total liabilities															**134,667**	159,978
Other segment information																
Depreciation and amortisation	**11,986**	14,303	**9,267**	4,386	**–**	119	**–**	–	**–**	–	**3,798**	13,645	**–**	–	**25,051**	32,453
Unallocated amounts															**1,488**	2,646
															26,539	35,099
Capital expenditure	**3,820**	10,216	**3,696**	3,154	**–**	–	**–**	–	**–**	–	**832**	3,000	**–**	–	**8,348**	16,370
Unallocated amounts															**1,284**	85
															9,632	16,455
Provision for impairment loss on loans receivable	**–**	–	**–**	–	**–**	–	**–**	–	**(45,000)**	–	**–**	–	**–**	–	**(45,000)**	–
Write-back of over-provision against properties held for sale	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**200**	3,150
Provision for impairment loss on accounts receivable	**–**	–	**–**	(1,090)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(1,090)
Provision against inventories	**(650)**	(291)	**(540)**	240	**–**	–	**–**	–	**–**	–	**–**	(238)	**–**	–	**(1,190)**	(289)
Reversal of previous revaluation deficits of leasehold buildings, net	**1,530**	419	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1,530**	419
Unallocated amounts															**3,740**	2,927
															5,270	3,346
Net (loss)/gain arising from fair value change of investment properties	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(490)**	9,652

7. SEGMENT INFORMATION (CONTINUED)

b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Europe		North America		Hong Kong		Japan		Others		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:														
Sales to external customers	**51,357**	89,922	**130,442**	189,345	**146,836**	183,782	**196,340**	180,807	**28,896**	47,280	**–**	–	**553,871**	691,136

	Hong Kong		Mainland China		Others		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information:										
Segment assets	**532,496**	673,940	**197,662**	197,400	**43,813**	12,205	**–**	–	**773,971**	883,545
Interests in associates	**–**	(10,165)	**–**	47,224	**156,892**	161	**–**	–	**156,892**	37,220
									930,863	920,765
Capital expenditure	**1,945**	160	**5,787**	16,295	**1,900**	–	**–**	–	**9,632**	16,455

8. TURNOVER

Turnover represents the invoiced value of goods sold, net of returns and allowances, the proceeds from sales of listed equity investments and the interest income from the provision of loan financing.

Revenue from the following activities has been included in turnover:

	2005	2004
	HK$'000	HK$'000
Manufacture and sale of electronic products	**386,411**	391,632
Manufacture and sale of PCBs	**95,777**	108,992
Trading of listed equity investments	**7,342**	15,515
Provision of loan financing	**296**	107
Manufacture and sale of optical products	**64,045**	174,890
	553,871	691,136

9. OTHER REVENUE

	2005 HK$'000	2004 HK$'000
Bank interest income	**9,025**	1,575
Gain on deregistration of subsidiaries	**2,973**	–
Dividends income from listed investments	**106**	363
Sales of obsolete inventories	**558**	2,795
Management fee received	**256**	1,908
Product development income	**2,520**	2,678
Rental income	**137**	1,024
Sales of raw materials	**1,084**	1,778
Other interests earned	**7,102**	–
Others	**2,435**	1,968
	26,196	14,089

10. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2005 HK$'000	2004 HK$'000
Cost of inventories	**466,424**	583,563
Depreciation	**26,539**	35,347
Amortisation of leasehold land and land use rights	**252**	252
Amortisation of prepaid rental	**737**	737
Amortisation of deferred product development costs	**1,641**	1,421
Minimum lease payments under operating leases:		
Land and buildings	**7,876**	9,495
Office equipment	**209**	233
Staff costs (including directors' remuneration-note 11):		
Wages and salaries	**91,117**	114,775
Pension contributions	**1,443**	1,818
Less: Forfeited contributions	**–**	(562)
	1,443	1,256
	92,560	116,031
Auditors' remuneration	**880**	1,370
Write back of provision for impairment loss on accounts receivable	**–**	(1,090)
Provision against inventories	**1,190**	289
Loss/(Gain) on disposal of fixed assets	**44**	(21)
Exchange (gain)/loss, net	**(653)**	1,068
Net (gain)/loss on disposal of short term investments	**(72)**	88

10. PROFIT FROM OPERATING ACTIVITIES (CONTINUED)

The cost of inventories sold includes HK$62,754,000 (2004: HK$102,679,000) relating to direct staff costs, provision against inventories, amortisation of prepaid rental, amortisation of deferred product development costs, operating lease rentals of land and buildings and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

Directors' emoluments

The remuneration of every director for the year ended 31 December 2005 is set out below:

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive Directors						
Yau Tak Wah, Paul	–	1,847	150	–	90	2,087
Louie Mei Po	–	1,430	150	–	68	1,648
Wong Shin Ling, Irene	–	780	–	–	39	819
Tam Wing Kin	–	819	13	–	42	874
Tam Ping Wah (resigned on 1 June 2005)	–	400	–	–	–	400
Independent non-executive Director						
Cheung Chung Leung, Richard	150	–	–	–	–	150
Ng Wai Hung	180	–	–	–	–	180
Wu Wang Li	120	–	–	–	–	120
	450	5,276	313	–	239	6,278

11. DIRECTORS' REMUNERATION (CONTINUED)

Directors' emoluments (continued)

The remuneration of every director for the year ended 31 December 2004 is set out below:

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive Directors						
Yau Tak Wah, Paul	–	2,600	–	–	120	2,720
Louie Mei Po	–	1,430	–	–	51	1,481
Wong Shin Ling, Irene	–	780	–	–	39	819
Tam Wing Kin	–	819	–	–	35	854
Tam Ping Wah (resigned on 1 June 2005)	–	1,560	–	–	50	1,610
Independent non-executive Directors						
Cheung Chung Leung, Richard	150	–	–	–	–	150
Ng Wai Hung	180	–	–	–	–	180
Wu Wang Li	31	–	–	–	–	31
	361	7,189	–	–	295	7,845

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: two) directors, details of whose remuneration are set out in note 11 above. The details of the remuneration of the remaining two (2004: three) non-director, highest paid employees for the year are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Salaries, allowances and benefits in kind	**1,903**	3,520
Pension contributions	**73**	103
	1,976	3,623

12. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2005	2004
Nil-HK$1,000,000	**1**	1
HK$1,000,001-HK$1,500,000	**1**	2
	2	3

13. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	2004
	HK$'000	HK$'000
Current tax		
Hong Kong		
– Current year provision	**1,602**	976
– Overprovision in prior year	**(393)**	(750)
Mainland China	**1,380**	226
	2,589	452
Deferred tax (note 34)	**(1,069)**	–
Total tax charge for the year	**1,520**	452

In accordance with the applicable enterprise income tax law of the PRC, the Group's subsidiaries registered in Mainland China, Dongguan Yifu Circuit Board Factory ("Yifu") and Gaojin Electronics (Shenzhen) Co., Ltd ("Gaojin"), are exempt from income tax for their first two profitable years of operations and are entitled to 50% relief on the income tax that would otherwise be charged for the succeeding three years.

The foregoing tax concession for Yifu has expired. Pursuant to a further tax concession granted to high technology enterprises, the income tax rate applicable to Yifu remained at 15% for 2005 (2004: 15%). Gaojin began its first profitable year as the year ended 31 December 2002 and entitled to the 50% relief on the income tax. The income tax applicable rate to Gaojin is 15% for 2005 (2004: 15%).

13. TAXATION (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
(Loss)/Profit before tax	**(3,008)**	23,389
Tax at the statutory tax rate	**(526)**	4,093
Adjustments in respect of current tax of previous years	**(393)**	(750)
Income not subject to taxation	**(8,668)**	(5,240)
Expenses not deductible for taxation	**6,745**	2,475
Tax losses utilised from previous years	**(386)**	(759)
Effect of different taxation rates in other countries	**4,748**	633
Tax charge at the Group's effective rate	**1,520**	452

14. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements is HK$5,501,000 (2004: HK$1,538,000).

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the year of HK$4,779,000 (2004: HK$28,695,000) and the weighted average of 286,068,644 (2004: 286,068,644) ordinary shares in issue during the year.

A diluted earnings per share for the year ended 31 December 2005 and 2004 have not been disclosed as no diluting events existing during these years.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold Buildings		Leasehold improvements		Plant and machinery		Furniture, fixtures & office equipments		Motor vehicles		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cost or valuation												
At 1 January, as previously reported	**39,100**	34,900	**49,619**	45,671	**188,242**	181,048	**50,151**	48,235	**3,335**	3,667	**330,447**	313,521
Effect on adopting HKAS 17	**(8,440)**	(6,500)	**–**	–	**–**	–	**–**	–	**–**	–	**(8,440)**	(6,500)
	30,660	28,400	**49,619**	45,671	**188,242**	181,048	**50,151**	48,235	**3,335**	3,667	**322,007**	307,021
Additions	**–**	–	**1,095**	4,025	**6,306**	7,836	**1,251**	2,095	**980**	–	**9,632**	13,956
Disposals	**–**	–	**(880)**	(77)	**(736)**	(642)	**(306)**	(179)	**(800)**	(332)	**(2,722)**	(1,230)
Disposals of subsidiaries	**–**	–	**–**	–	**(46,520)**	–	**(25,878)**	–	**(2,189)**	–	**(74,587)**	–
Surplus on revaluation	**3,970**	2,260	**–**	–	**–**	–	**–**	–	**–**	–	**3,970**	2,260
At 31 December	**34,630**	30,660	**49,834**	49,619	**147,292**	188,242	**25,218**	50,151	**1,326**	3,335	**258,300**	322,007
Accumulated depreciation												
At 1 January, as previously reported	**–**	–	**25,422**	19,481	**105,196**	86,027	**27,802**	19,715	**2,616**	2,529	**161,036**	127,752
Effect on adopting HKAS 17	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
	–	–	**25,422**	19,481	**105,196**	86,027	**27,802**	19,715	**2,616**	2,529	**161,036**	127,752
Provided during the year	**1,306**	1,086	**4,139**	5,955	**16,793**	19,663	**3,905**	8,261	**396**	382	**26,539**	35,347
Disposals	**–**	–	**(880)**	(14)	**(192)**	(494)	**(263)**	(174)	**(800)**	(295)	**(2,135)**	(977)
Disposals of subsidiaries	**–**	–	**–**	–	**(15,269)**	–	**(11,554)**	–	**(2,189)**	–	**(29,012)**	–
Write-back on revaluation	**(1,306)**	(1,086)	**–**	–	**–**	–	**–**	–	**–**	–	**(1,306)**	(1,086)
At 31 December	**–**	–	**28,681**	25,422	**106,528**	105,196	**19,890**	27,802	**23**	2,616	**155,122**	161,036
Net book value												
At 31 December	**34,630**	30,660	**21,153**	24,197	**40,764**	83,046	**5,328**	22,349	**1,303**	719	**103,178**	160,971
An analysis of cost or valuation												
At cost	**–**	–	**49,834**	49,619	**147,292**	188,242	**25,218**	50,151	**1,326**	3,335	**223,670**	291,347
At valuation	**34,630**	30,660	**–**	–	**–**	–	**–**	–	**–**	–	**34,630**	30,660
	34,630	30,660	**49,834**	49,619	**147,292**	188,242	**25,218**	50,151	**1,326**	3,335	**258,300**	322,007

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Leasehold improvements		Furniture and fixtures		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cost						
At 1 January and 31 December	**13**	13	**144**	144	**157**	157
Accumulated depreciation						
At 1 January	**10**	8	**120**	93	**130**	101
Provided during the year	**3**	2	**17**	27	**20**	29
At 31 December	**13**	10	**137**	120	**150**	130
Net book value						
At 31 December	**–**	3	**7**	24	**7**	27

The Group's leasehold buildings have been revalued on an open market value basis, based on their existing use, by B.I. Appraisals Limited, an independent firm of qualified professional valuers, on 31 December 2005 at HK$34,630,000. Revaluation surplus of HK$5,270,000 (2004: HK$3,346,000) and HK$6,000 (2004: Nil) resulting from these valuations have been credited to income statement as a reversal of previous revaluation deficits of leasehold buildings and credited to the property revaluation reserve, respectively.

Had the Group's leasehold buildings stated at valuation been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$24,903,000 (2004: HK$25,985,000).

Certain of the Group's leasehold buildings were pledged to secure banking facilities granted to the Group. The net book values of the pledged assets included in the total amount of property, plant and equipment at 31 December 2005 amounted to HK$13,800,000 (2004: HK$10,860,000).

17. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2005 HK$'000	2004 HK$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	**7,955**	8,145
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,352**	2,414
	10,307	10,559

	2005 HK$'000	2004 HK$'000
Opening	**10,559**	10,811
Amortisation	**(252)**	(252)
Net book value	**10,307**	10,559

At 31 December 2005, certain of the Group's leasehold land with net book value of HK$7,955,000 (2004: HK$8,145,000) was pledged to secure banking facilities granted to the Group.

18. INVESTMENT PROPERTIES

	Group	
	2005 HK$'000	2004 HK$'000
At 1 January	**93,000**	–
Additions	**6,740**	83,348
Disposal	**(70,500)**	–
Net (loss)/gain arising from fair value change	**(490)**	9,652
At 31 December	**28,750**	93,000

Investment property with fair value of HK$7,100,000 was revalued at its open market value at 31 December 2005 by B.I. Appraisals Limited, an independent firm of qualified professional valuers. The fair values of the Group's other investment properties as at 31 December 2005 have been determined by the directors of the Company, no valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Company was arrived at by reference to the market prices for similar properties.

All investment properties are held under long-term lease in Hong Kong.

19. NEGATIVE GOODWILL

The amounts of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of Swank International Manufacturing Company Limited ("Swank") and additional investment in Electronics Tomorrow Manufactory Inc. 2002, are as follows:.

Group

	HK$'000
GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	88,680
RELEASED TO INCOME	
At 1 January 2004	(48,334)
Released for the year	(13,062)
At 31 December 2004	27,284
Derecognised upon the adoption of HKFRS 3	(27,284)
At 1 January 2005 and 31 December 2005	–

20. INTERESTS IN SUBSIDIARIES

	2005 **HK$'000**	2004 HK$'000
Unlisted shares, at cost	**93,316**	93,316
Due from subsidiaries	**298,444**	279,862
Due to subsidiaries	**(2,772)**	(2,778)
	388,988	370,400
Provision for impairment	**(38,628)**	(38,628)
	350,360	331,772

The balances with the subsidiaries are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/registered share capital	Percentage of equity attributable to the company 2005	2004	Principal activities
Active Base Limited	Hong Kong	HK$2	100%	100%	Provision of loan financing
Allied Trade Limited	The British Virgin Islands	US$1	100%	100%	Investment holding
Allied Success Inc.	The British Virgin Islands	US$10,000	88%	88%	Investment holding
Connion Limited	Hong Kong	HK$2	100%	100%	Securities investment and property holding
E-Top PCB Limited	Hong Kong	HK$100	57%	57%	Trading of printed circuit boards
Eastec Purchasing Limited	The British Virgin Islands/ Japan	US$1	100%	100%	Trading of electronic components and parts
Eastec Technology Limited	Hong Kong	HK$2	100%	100%	Trading of electronic components and parts
Electronics Tomorrow International Limited	The British Virgin Islands	US$600	100%	100%	Investment holding
Electronics Tomorrow Limited	Hong Kong	HK$500,000	100%	100%	Manufacture and sale of electronic products

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/registered share capital	Percentage of equity attributable to the company 2005	2004	Principal activities
Electronics Tomorrow Manufactory Inc.	The British Virgin Islands	US$350	57%	57%	Investment holding
Fortune Dynamic Group Corporation	The British Virgin Islands	US$1	100%	100%	Investment holding
Good Order International Inc.	The British Virgin Islands	US$100	100%	100%	Investment holding
Issegon Company Limited	Hong Kong	HK$300,000	100%	100%	Investment holding
Master Base Limited	The British Virgin Islands	US$1	100%	100%	Investment holding
Maxwood Limited	Hong Kong	HK$2	100%	100%	Securities investment
Merit Team Limited	Hong Kong	HK$2	100%	100%	Property holding
Plentiful Light Limited	The British Virgin Islands/ The PRC	US$100	57%	57%	Manufacture of printer circuit boards
Probest Holdings Inc.	The British Virgin Islands	US$1	100%	100%	Investment holding
Dongguan Yifu Circuit Board Factory ("Yifu") (i)	The PRC	HK$64,160,000	48%	48%	Manufacture of printed circuit boards
Gaojin Electronics (Shenzhen) Company Limited ("Gaojin") (ii)	The PRC	US$5,000,000	100%	100%	Manufacture of electronic products

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/registered share capital	Percentage of equity attributable to the company 2005	2004	Principal activities
Electronics Tomorrow Holdings Corporation	The British Virgin Islands	US$100	100%	100%	Investment holding
ETL (Macao) Commercial Offshore Limited	Macau	MOP500,000	100%	100%	Trading of electronic components and parts
Team Force Corporation	The British Virgin Islands	US$100	100%	100%	Investment holding
Electronics Tomorrow Property Holdings Limited	The British Virgin Islands	US$100	100%	100%	Investment holding
Account Centre Limited	Hong Kong	HK$2	100%	100%	Provision of accountancy services to group companies
Maxson Services Limited	Hong Kong	HK$2	100%	100%	Provision of accountancy and management services to group companies
Eastec Property Holdings Limited	Hong Kong	HK$100	100%	100%	Provision of loan financing
Art Ray Investments Limited	Hong Kong	HK$1	100%	–	Property holding
Merit Style Development Limited	Hong Kong	HK$1	100%	–	Property holding

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

Other than Electronics Tomorrow International Limited, Fortune Dynamic Group Corporation and Master Base Limited, which are held directly by the Company, all subsidiaries are held indirectly by the Company.

(i) Yifu is a Sino-foreign owned joint venture enterprise under the PRC law. The Company has the power to cast the majority of votes at meetings of the board of directors of the entity and therefore it is regarded as subsidiary of the Company.

(ii) Gaojin is registered as a wholly foreign owned enterprise under the PRC law.

21. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**–**	–
Share of net assets	**–**	128,876
Due from associates	**47,716**	8,467
Promissory note	**119,388**	–
	167,104	137,343
Provision for impairment	**(10,212)**	(100,123)
	156,892	37,220

The amounts due from associates are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

The promissory note receivable from associate is unsecured, except for the guarantee given by Swank, with maturity date on 2 December 2007 and bearing interest at the rate equivalent to 1% over the prevailing Hong Kong prime rate per annum. Further details are set out in note 36(b).

The amounts due to associates were unsecured, interest-free and had no fixed terms of repayment.

21. INTERESTS IN ASSOCIATES (CONTINUED)

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and operations	Nominal value of issued ordinary share capital/registered share capital	Percentage of equity attributable to the Group 2005	Principal activities
Profitown Investment Corporation	Corporate	The British Virgin Islands	US$1,000	30%	Investment holding
Shenzhen Henggang Swank Optical Industrial Company Limited	Joint Venture Enterprise	The PRC	US$30,000,000	24%	Manufacture of optical products
Dongguan De Bao Optical Company Limited	Wholly Foreign Owned Enterprise	The PRC	HK$58,550,910	15%	Manufacture of multi-coating lenses
Dongguan Hamwell Glasses Company Limited	Joint Venture Enterprise	The PRC	HK$62,504,800	25%	Manufacture of optical products
Global Origin Limited	Corporate	Hong Kong	HK$75,000,000	27%	Investment holding
Profit Trend International Limited	Corporate	Hong Kong	HK$1,000,000	15%	Investment holding
Prowin Commercial & Industrial Limited	Corporate	Hong Kong	HK$2	30%	Property holding in the PRC

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Upon completion of disposal of Swank as further detailed in note 36(a) below, these companies have been classified as associates of the Group.

22. PREPAID RENTAL

	Group	
	2005	2004
	HK$'000	HK$'000
Cost		
At beginning and end of the year	**10,500**	10,500
Amortisation		
At beginning of the year	**7,860**	7,123
Provided during the year	**737**	737
At end of the year	**8,597**	7,860
Net book value		
At end of the year	**1,903**	2,640

The prepaid rental represents the capital contribution made by the joint venture partner of Yifu in the form of a right to use the property owned by the joint venture partner within the terms of the joint venture.

The prepaid rental is amortised on a straight-line basis over the underlying initial term of the joint venture of 15 years.

23. DEFERRED PRODUCT DEVELOPMENT COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Cost		
At beginning of the year	**21,875**	19,376
Additions	**2,599**	2,499
At end of the year	**24,474**	21,875
Accumulated amortisation and impairment		
At beginning of the year	**16,014**	14,593
Amortisation provided during the year	**1,641**	1,421
At end of the year	**17,655**	16,014
Net book value		
At end of the year	**6,819**	5,861

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2005	2004
	HK$'000	HK$'000
Listed securities		
– Listed equity securities in Hong Kong (note (a))	**15,620**	–
Unlisted debt security		
– Debt security traded on inactive markets and of private issuers (note (b))	**11,744**	–
	27,364	–
Market value of listed securities	**15,620**	–

(a) Upon Completion of disposal of Swank as further detailed in note 36(a) below, the Group will hold approximately 5% of the existing issued shares of Swank and the Group's interest in Swank has been classified as available-for-sale financial asset.

(b) The unlisted debt security has an effective interest rate of 12.5% and will mature on 29 April 2010. The unlisted debt security not publicly traded is secured by the issued capital of the issuer on a pro rata basis, and there is no material 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.

25. LOANS RECEIVABLE

	Group	
	2005	2004
	HK$'000	HK$'000
Secured		
– Moulin Loan (note (a))	**50,000**	–
– Others (note (b))	**2,000**	3,000
Unsecured (note (b))	**46**	67
	52,046	3,067
Provision for impairment (note (a))	**(45,000)**	–
	7,046	3,067
Less: Non-current portion	**(1,000)**	(2,000)
	6,046	1,067

25. LOANS RECEIVABLE (CONTINUED)

(a) In February 2005, Active Base Limited ("Active Base"), a subsidiary of the Company, entered into a loan agreement with Moulin Global Eyecare Holdings Limited which was subsequently put into provisional liquidation in June 2005 ("Moulin"), under which, Active Base advanced HK$50 million to Moulin ("Moulin Loan") in February 2005. As security for the Moulin Loan, the following security documents, amongst the others, were executed in favour of Active Base:

(i) A debenture agreement executed between Moulin and Active Base ("Moulin Debenture"), under which a first floating charge over all Moulin's undertaking, property, assets, goodwill, rights and revenues, whatsoever and whatsoever, both present and future, in favour of Active Base;

(ii) Guarantee over the liabilities of Moulin dated by Sharp Merit International Limited; and

(iii) Guarantee over the liabilities of Moulin dated by Mr. Ma Bo Kee, Mr. Ma Lit Kin and Mr. Ma Hon Kin.

In or about June 2005, Moulin filed a legal claim against Active Base to challenge that both the Moulin Loan and Moulin Debenture are not enforceable.

This legal litigation is currently at early stage.

However, the directors of the Company have also carefully considered the current progress on the realization of assets by Moulin's provisional liquidators and the financial position of Moulin as released by Moulin up to the date of this report, and as a result, an impairment loss of HK$45 million has been recognised against the Moulin Loan in these financial statements.

(b) The loans receivable bears interest ranging from 3% to 12% per annum for both years.

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**65,453**	107,255	**2,445**	3,930
Short-term bank deposits	**331,322**	290,469	**261,617**	273,043
	396,775	397,724	**264,062**	276,973

The effective interest rate of short-term bank deposits is 4.0% (2004: 0.5%). They have a maturity of 15 days and are eligible for immediate cancellation without receiving any interest for the last deposit period.

26. CASH AND CASH EQUIVALENTS (CONTINUED)

Included in bank and cash balances of the Group is HK$ 4,226,000 (2004: HK$ 6,838,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency.

27. PROPERTIES HELD FOR SALE

	Group	
	2005	2004
	HK$'000	HK$'000
At cost	**6,333**	6,333
Provision for impairment	**(133)**	(333)
	6,200	6,000

The properties held for sale are situated in Hong Kong and are held under medium term leases.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
Trading securities		
– Listed equity securities in Hong Kong	**2,465**	7,491
Market value of listed securities	**2,465**	7,491

29. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**37,577**	54,121
Work in progress	**17,720**	10,168
Finished goods	**12,243**	25,121
	67,540	89,410

As at 31 December 2005 and 2004, all inventories are stated at cost.

30. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable is as follows:

	2005		2004	
	HK$'000	**Percentage**	HK$'000	Percentage
Current to three months	**48,196**	**70**	93,523	75
Four to six months	**106**	**0**	2,597	2
Seven months to one year	**943**	**1**	14,532	12
Over one year	**19,824**	**29**	13,533	11
	69,069	**100**	124,185	100
Provision	**(6,177)**		(8,296)	
Total after provision	**62,892**		115,889	

The normal credit period granted by the Group to customers ranges from 21 days to 120 days.

31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the balance is an amount of HK$ 20 million (2004: Nil) which represents the balance of the consideration on the disposal of controlling interest in Swank as referred to note 36 below. The directors consider that the balance of prepayments, deposits and other receivables approximate their fair value.

32. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current to three months	**46,809**	52,736
Four to six months	**12,189**	34,148
Seven months to one year	**6,629**	5,298
Over one year	**6,031**	522
	71,658	92,704

Accounts payable aged less than four months accounted for 65% (2004: 57%) of the total accounts payable.

33. PROVISION FOR LONG SERVICE PAYMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year	**949**	1,243	**230**	240
Amount utilised during the year	**(379)**	(294)	**–**	(10)
At end of year	**570**	949	**230**	230

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 4(p) to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

34. DEFERRED TAX LIABILITIES

Group

	Accelerated tax depreciation	
	2005	2004
	HK$'000	HK$'000
At 1 January	**3,122**	1,433
Charge to equity for the year	**–**	1,689
Credit to income statement for the year	**(1,069)**	–
At 31 December	**2,053**	3,122

The Group has tax losses arising in Hong Kong of approximately HK$142,700,000 (2004: HK$177,890,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

35. ISSUED CAPITAL

	2005 HK$'000	2004 HK$'000
Authorised:		
50,000,000,000 (2004: 50,000,000,000) ordinary shares of HK$0.01 (2004: HK$0.01) each	**500,000**	500,000
Issued and fully paid:		
286,068,644 (2004: 286,068,644) ordinary shares of HK$0.01 each (2004: HK$0.01) each	**2,861**	2,861

There was no repurchase of any shares during the year.

36. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of controlling interest in Swank

	2005 HK$'000	2004 HK$'000
Net assets disposed of:		
Property, plant and equipment	**45,575**	–
Interests in associates	**31,656**	–
Cash and bank balances	**31,226**	–
Time deposits	**379**	–
Accounts receivable	**43,916**	–
Prepayment, deposits and other receivables	**5,060**	–
Inventories	**27,222**	–
Accounts payable	**(20,363)**	–
Amounts due to associates	**(2,904)**	–
Other payables and accruals	**(9,914)**	–
Tax payable	**(850)**	–
Provision for long service payments	**(379)**	–
Amount due to a shareholder	**(47,716)**	–
Promissory note payable	**(102,073)**	–
	835	–
Gain on disposal	**42,244**	–
Total consideration	**43,079**	–
Satisfied by:		
Cash received	**23,079**	–
Other receivable (note 31)	**20,000**	–
	43,079	–

36. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

An analysis of net outflow of cash and cash equivalents in respect of the disposal of controlling interest in Swank is as follows:

	2005	2004
	HK$'000	HK$'000
Cash consideration received	**23,079**	–
Cash and bank balance disposed	**(31,226)**	–
Time deposits disposed	**(379)**	–
Net cash outflow	**(8,526)**	–

(a) On 20 January 2005, Probest Holdings Inc ("Probest") which is a wholly-owned subsidiary of the Company, amongst the others, entered into a conditional sale and purchase agreement (as amended by the supplemental agreement dated 13 April 2005) ("Swank Disposal Agreement") with an independent third party, China Time Investment Holdings Limited ("China Time"), pursuant to which Probest disposed of 1,437,396,440 issued shares of the Swank International Manufacturing Company Limited ("Swank"), representing approximately 46% of the existing issued shares of Swank at the consideration of approximately HK$43 million which are to be received by two instalments as follows:

   (i) as to HK$23 million within six months of completion; and

   (ii) as to HK$20 million on the anniversary of completion.

   The Swank Disposal Agreement was completed on 3 June 2005.

(b) Upon completion of the Swank Disposal Agreement on 3 June 2005, Profitown issued and delivered a new Promissory Note of HK$ 112,285,435 to Probest, which is guaranteed by Swank ("Swank Guarantee"). The obligations of Swank under the Swank Guarantee are unsecured and will cease to be effective if the Put Option, as referred to (c) below, is exercised and the transaction contemplated under the Put Option is completed.

(c) On completion of the Swank Disposal Agreement, Swank, Probest and the Company, and Profitown entered into a shareholder agreement to regulate the management of Profitown ("Profitown Shareholders Agreement"). Pursuant to principal terms of the Proftown Shareholders Agreement, Swank will have the right to request Probest or an independent third party procured by Probest to purchase (the "Put Option") all (but not part of only) of its shares, being 70% of all the existing issued shares of Profitown exercisable at any time before the expiry of 30 months from the Completion Date of the Share Disposal Agreement at a price equal to the net tangible asset value of Profitown as at the date of exercise of such put option attributable to such shares and such purchaser will assume all the liabilities due from Swank to any member of the Profitown Group incurred prior to the date of Profitown Shareholders Agreement at nil consideration. If the net tangible asset value of Profitown as determined on the same basis and accounting policies adopted by Profitown in its latest audited accounts shall fall below zero during the 30-month period from the Completion Date, Probest will indemnify Profitown on demand for the deficit in the event that such deficit exceeds the outstanding principal amount of the new Promissory Note due to Probest and the interest accrued. The Put Option and such indemnity by Probest will cease and Probest shall have no further obligations in respect thereto if (i) the aggregate shareholding of China Time in the Company falls below 51%; (ii) there is any change to the majority of the board of directors of China Time since the date of and as disclosed in the Share Disposal Agreement; and (iii) Mr. Wang An Kang ceases to be the legal and beneficial owner of at least 75% of and in China Time.

36. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(d) Upon completion of the Swank Disposal Agreement, the Company and its wholly-owned subsidiary, Probest, executed a deed in favour of China Time ("Tomorrow Group Deed"), pursuant to which, Probest shall indemnify China Time for an amount of HK$56,247,530 upon demand in case Swank ceases to be listed on the Stock Exchange under certain circumstances as detailed in the joint announcement dated 18 April 2005 made by the Company, Swank and China Time.

Upon completion of the above Swank Disposal Agreement and its related loan restructuring agreement, the Group realized a net gain of approximately HK$42 million.

37. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Tomorrow Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Tomorrow Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder of the Company's subsidiaries. The Tomorrow Scheme became effective on 29 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Tomorrow Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Tomorrow Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the company, or to any of their associates, in excess of 0.1% of the shares of the company in issue at any time or with an aggregate value (based on the price of the company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised under the Tomorrow Scheme at any time during a period not exceeding five years after the date when the option is granted and expiring on the last date of such period.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options have been granted during the year and no share options outstanding as at the balance sheet date.

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004	200,556	77	368,125	34,646	603,404
Net profit for the year	–	–	–	1,538	1,538
At 31 December 2004 and at 1 January 2005	200,556	77	368,125	36,184	604,942
Net profit for the year	–	–	–	5,501	5,501
At 31 December 2005	**200,556**	**77**	**368,125**	**41,685**	**610,443**

At 31 December 2005, the aggregate amount of reserve available for distribution to equity holders of the Company, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), was HK$409,810,000 (2004: HK$404,309,000). In addition, the Company's share premium account, in the amount of HK$200,556,000 may be distributed in the form of fully paid bonus shares.

39. CONTINGENT LIABILITIES

	Company 2005 HK$'000	Company 2004 HK$'000
Guarantees of banking facilities granted to subsidiaries	**15,300**	28,300

The Group had no other significant contingent liabilities at the balance sheet date (2004: Nil).

40. COMMITMENTS

(a) Capital commitments

	Group	
	2005	2004
	HK$'000	HK$'000
Property, plant and equipment		
– Contracted but not provided for	**6,075**	–
Deferred product development costs		
– Contracted but not provided for	**583**	–
– Authorised but not contracted for	**–**	811
Commitments to contribute to subsidiaries registered in the PRC	**27,958**	4,618
	34,616	5,429

The Company had no significant commitments at the balance sheet date (2004: Nil).

(b) Operating lease commitments

The Group leases certain of its office properties, factory premises, warehouses and office equipment under operating lease arrangements. Leases for office properties, factory premises and warehouses are negotiated for terms ranging from one to fifteen years, and those office equipment for a term of three years.

At 31 December 2005, the Group and the Company had future minimum lease under non-cancellable operating leases falling committed for due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Land and buildings:				
Within one year	**6,144**	10,010	**1,756**	1,756
In the second to fifth years, inclusive	**16,828**	19,258	**3,371**	5,127
After five years	**1,580**	3,538	**–**	–
	24,552	32,806	**5,127**	6,883
Office equipment:				
Within one year	**89**	210	**–**	–
In the second to fifth years, inclusive	**–**	89	**–**	–
	89	299	**–**	–
	24,641	33,105	**5,127**	6,883

41. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had the following connected and related party transactions:

(a) A loan of HK$24,100,000 (2004: HK$16,000,000) was granted by a wholly-owned subsidiary of the Group to E-Top PCB Limited ("E-Top"), a 57% owned subsidiary of the Group, for its general working capital. The loan was unsecured, bore interest at the one-month Hong Kong dollar time deposit rate and had no fixed terms of repayment.

(b) In addition, the Group had certain banking facilities, with a total limit of HK$15 million (2004: HK$28 million), which were used by a wholly-owned subsidiary of the Group. These banking facilities were secured by corporate guarantees executed by E-Top and Plentiful, both of which are 57% owned subsidiaries of the Group, and certain wholly-owned subsidiaries of the Group, and certain leasehold buildings of the Group (note 16), and certain leasehold land of the Group (note 17).

(c) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Note	**2005** **HK$'000**	2004 HK$'000
Sales of products to associates	(i)	**3,746**	10,224
Purchases of products from associates	(ii)	**6,327**	14,807
Management fee income from associates	(iii)	**256**	585

(i) The sale to the associates were made according to the published prices, terms and conditions offered to the major third party customers of the Group.

(ii) The purchases from the associates were made according to the published prices, terms and conditions offered by the associates to their major third party customers.

(iii) The management fee income was charged according to the management's estimation on costs of office premises and utilities used by the associates.

42. POST BALANCE SHEET EVENTS

On 8 March 2006, the Company announced and proposed to raise approximately HK$173.4 million, before expenses, by issuing 357,585,805 offer shares at a price of HK$0.485 per offer share by way of the open offer, on the basis of an assured entitlement of 5 offer shares for every 4 existing shares held on the record date and payable in full on acceptance. The registered holders of fully-paid offer shares will be issued 5 bonus shares for every 7 fully-paid offer shares. In order to facilitate the open offer by enabling the Company to allot and issue the bonus shares, which will only be issued to registered holders of the fully-paid offer shares, the Board proposed the amendment of the bye-laws of the Company to allow a distribution to shareholders on a non pro-rata basis. The Board further proposed the share consolidation, upon completion of the open offer and the bonus issue, involving a consolidation of every 4 existing shares into one consolidated share. For details, please refer to the announcement of the Company dated 8 March 2006. A circular, among others, in relation to the open offer, the bonus issue and the share consolidation will be despatched to shareholders of the Company as soon as possible.

43. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2 and 3.

44. PARENT ENTERPRISE

The directors consider Winspark Venture Limited, which is incorporated in the British Virgin Islands, to be its parent enterprise.