Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. 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. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as other financial assets; and

– trading securities.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relating to fixed assets, intangible assets, goodwill and available-for-sale securities have been discussed in notes 12, 13, 14 and 16.

(c) Interest in subsidiaries and controlled entities

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

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

1. Significant accounting policies (Continued)

(c) Interest in subsidiaries and controlled entities (Continued)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(h)), unless the investment is classified as held for sale, in which case it is stated at the lower of its carrying amount and fair value less costs to sell. An investment in a subsidiary is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the investment is available for sale in its present condition.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination 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 any accumulated impairment losses (see note 1(h)). Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

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

(e) Investment properties and other property, plant and equipment

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(g)) to earn rental income, or for capital appreciation or for a currently undetermined future use.

Both investment properties and other items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation/amortisation and impairment losses (see note 1(h)).

When the Group holds a property interest held under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Lease payments are accounted for as described in note 1(g).

Leasehold land held under operating leases is stated in the balance sheet at cost less accumulated amortisation (see note 1(g)) and impairment losses (see note 1(h)).

Depreciation is calculated to write off the cost of items of investment properties and property, plant and equipment, using the straight line method over their estimated useful lives as follows:

– Investment properties	33 years
– Buildings	40 years
– Plant and machinery	2 to 7 years
– Tools and equipment	2 to 5 years
– Others	2 to 5 years

The useful life of an asset is reviewed annually.

Gains or losses arising from the retirement or disposal of an investment property or an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

1. Significant accounting policies (Continued)

(f) Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation and impairment losses (see note 1(h)).

Costs incurred in connection with the acquisition of patent rights are amortised on a straight-line basis over their estimated economic lives of between ten and twenty years.

(g) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(h) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– investments in subsidiaries;

– fixed assets;

– intangible assets; and

– goodwill.

1. Significant accounting policies (Continued)

(h) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(h)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 1(h)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(j) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

1. Significant accounting policies (Continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(h)).

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Inventories

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

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue arising from the sale of goods is recognised on delivery of goods to customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of returns and any trade discounts.

(ii) Interest income from bank deposits and debt securities is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(iii) Income from other securities is recognised when the Group's right to receive such income is established.

(iv) Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plan

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contribution plans and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised in profit or loss as incurred.

1. Significant accounting policies (Continued)

(p) Employee benefits (Continued)

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(q) Provisions and contingent liabilities

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

(r) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1. Significant accounting policies (Continued)

(r) Income tax (Continued)

(iii) (Continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realised the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and abilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Convertible notes

Convertible notes that can be converted to share capital at the opinion of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market value of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign exchange are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

1. Significant accounting policies (Continued)

(u) 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.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or the Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 33).

(a) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such options as an expense with a corresponding increase recognised in a capital reserve within the equity. Further details of the new policy are set out in note 1(p(ii)).

The Group has taken advantage of the transitional provisions set out in HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

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

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

2. Changes in accounting policies (Continued)

(a) Employee share option scheme (HKFRS 2, Share-based payment) (Continued)

All the options granted by the Company before 1 January 2005 fall within the above two categories. This change in accounting policy has no impact on the results of the Group for the year ended 31 December 2004. For the new options granted in 2005, the new accounting policy was applied and it resulted in an increase in the Group's loss after tax for the year ended 31 December 2005 of $11,373,000. Details of the employee share option scheme are set out in note 25.

(b) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior periods, positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group has changed its accounting policy relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment further details of the new policy are set out in note 1(d).

The new policy in respect of amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the year ended 31 December 2005. As a result of the impairment charge made in 2005, the change in policy has not impacted the Group's loss after tax for the year ended 31 December 2005.

(c) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in notes 1(i), (j) and (s). Further details of the changes are as follows.

(i) Investments in securities

In prior years, investments held on a continuing basis for an identifiable long-term purpose were classified as non-trading securities carried at fair vale and changes in fair values are dealt with as movements in the investment revaluation reserve. Trading securities were stated at fair value with changes in fair value recognised in profit or loss.

With effect from 1 January 2005, and in accordance with HKAS 39, all investments, with the exception of securities held for trading purposes, dated debt securities being held to maturity and certain unquoted equity investments, are classified as available-for-sale securities and carried at fair value. Changes in the fair value of available-for-sale securities are recognised in equity, unless there is objective evidence that an individual investment has been impaired. Further details of the new policies are set out in note 1(i).

(ii) Convertible notes

In prior years, convertible notes issued were stated at cost.

With effect from 1 January 2005, and in accordance with HKAS 32 and HKAS 39, convertible notes issued are split into their liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits). Further details of the new policies are set out in note 1(s).

(iii) Description of transitional provisions and effect of adjustments

The change in accounting policy relating to accounting for investments in debt and equity securities was adopted by way of re-designation of the investment securities with a fair value of $60,489,000 at 31 December 2004 as available-for-sale securities at 1 January 2005.

In respect of convertible notes, an opening balance sheet adjustment was made to capital reserve and retained profits as at 1 January 2005 as disclosed in note 26(a). As a result of this change in policy, the Group's loss for the year and net assets at 31 December 2005 have increased by $190,000 and $1,096,000 respectively. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

2. Changes in accounting policies (Continued)

(d) Changes in presentation

Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction before arriving at net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to equity shareholders of the Company.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the total profit and loss for the year between the minority interests and the equity shareholders of the Company. Further details of the new policy are set out in note 1(c). These changes in presentation have been applied retrospectively with comparatives restated.

As a result of these changes in presentation, the Group's loss for the year and net assets at 31 December 2005 have increased by $25,343,000 (profit for year 2004: increased by $23,110,000) and $33,792,000 (2004: $55,908,000) respectively.

(e) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 32 has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) 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. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

3. Turnover

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sale of liquid crystal displays and related products.

Turnover represents the invoiced value of goods supplied to customers by the Group less returns and discounts.

4. Income

	2005 $'000	2004 $'000
Other revenue		
Dividend income from listed equity securities	425	541
Interest income from listed debt securities	2,367	3,857
Interest income from unlisted debt securities	1,119	1,512
Interest income from unlisted investment funds	545	184
Other interest income	12,426	5,853
Rental income under operating leases	367	3,193
Other income	3,409	2,420
	20,658	17,560
Other net income		
Profit on disposal of fixed assets	6,573	1,602
Profit on disposal of associate	–	4,858
Transfer from equity on disposal of available-for-sale securities (2004: realised losses on disposal of other non-trading securities)	70	(188)
Realised and unrealised gains on trading securities	12,708	1,782
Exchange (loss)/gain	(6,885)	11,167
	12,466	19,221

5. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

	2005 $'000	2004 $'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	4,723	3,373
Interest on convertible notes	1,872	1,872
Amortisation of convertible notes	190	–
	6,785	5,245
(b) Other items:		
Amortisation of intangible assets	1,622	1,622
Cost of inventories	1,478,600	1,460,869
Auditors' remuneration – audit services	2,005	1,426
Research and development costs	21,335	26,141
Rental charges under operating leases	3,122	3,034
Contributions to defined contribution retirement plan	6,452	6,993
Other retirement scheme costs	1,437	1,734
(c) Impairment losses:		
Trade and other receivables	6,420	8,483

6. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2004	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive Directors					
Dr Chang Chu Cheng	–	1,904	4,768	6	6,678
Chung Shun Ming	–	1,440	3,277	66	4,783
Kwok Siu Kwan	–	1,440	3,315	72	4,827
Dr Yan Sze Kwan	–	1,440	3,600	72	5,112
Non-executive Directors					
James Lee Goon Nam	87	–	–	–	87
Professor Charles Kao Kuen	200	–	–	–	200
Anthony Lui Chi Shing	200	–	–	–	200
Dr William Lo Wing Yan	89	–	–	–	89
Total	576	6,224	14,960	216	21,976

6. Directors' remuneration (Continued)

Year ended 31 December 2005	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Share-based payments $'000	Retirement scheme contributions $'000	Total $'000
Executive Directors						
Dr Chang Chu Cheng	–	2,054	1,460	2,886	12	6,412
Johnson Ko Chun Shun	–	1,400	1,460	2,886	50	5,796
Tony Tsoi Tong Hoo	–	1,916	1,460	2,714	80	6,170
Cecil Ho Te Hwai	–	209	400	2,886	9	3,504
Chung Shun Ming	–	960	–	–	48	1,008
Kwok Siu Kwan	–	960	–	–	48	1,008
Dr Yan Sze Kwan	–	960	–	–	48	1,008
Non-executive Directors						
Dr William Lo Wing Yan	200	–	–	–	–	200
Yuen Kin	161	–	–	–	–	161
Hou Ziqiang	161	–	–	–	–	161
Professor Charles Kao Kuen	110	–	–	–	–	110
Anthony Lui Chi Shing	110	–	–	–	–	110
Total	742	8,459	4,780	11,372	295	25,648

The above emoluments include the estimated value of share options granted to the directors under the company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(p). The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option Scheme" in the director's report and note 25.

7. Five highest paid individuals' remuneration

The five highest paid individuals in the Group includes four (2004: four) Directors, whose emoluments are disclosed in note 6, and one (2004: one) other whose emoluments are as follows:

	2005 $'000	2004 $'000
Salaries and allowances	1,288	1,301
Retirement scheme contributions	246	249
	1,534	1,550

8. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2005 $'000	2004 $'000
Current tax – Provision for Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	22,007	19,336
Under-provision in respect of prior years	13,503	3,857
	35,510	23,193
Current tax – Overseas		
Tax for the year	8,223	10,031
Deferred tax		
Reversal of temporary differences (note 24(b))	(12,729)	(5,122)
	31,004	28,102

The provision for Hong Kong Profits Tax for 2005 is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

A subsidiary has received from the Hong Kong Inland Revenue Department ("IRD") additional assessments relating to prior years for taxation totalling $163 million (2004: $141 million). These additional assessments relate to a dispute over the deductibility of certain sub-contracting charges for tax assessment purposes. The directors of the subsidiary consider that there are grounds to contest the additional assessments and have indicated that they will pursue this case vigorously. The subsidiary has formally objected to the additional assessments and has purchased Tax Reserve Certificates totalling $54 million (2004: $45 million) pending the outcome of the objection. They are now in negotiation with the IRD and additional provision have been recorded during the year to bring the total amount recognised in relation to their potential liability to $89 million (2004: $61 million) based on the expected outcome on these discussions.

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2005 $'000	2004 $'000
(Loss)/profit before tax	(173,315)	243,924
Notional tax on (loss)/profit before tax calculated at the rates applicable to profits in the countries concerned	15,743	40,162
Tax effect of non-deductible expenses	23,735	10,578
Tax effect of non-taxable revenue	(26,853)	(28,017)
Tax effect of unused tax losses not recognised	4,971	446
Under-provision in prior years	13,503	3,857
Others	(95)	1,076
Actual tax expense	31,004	28,102

9. (Loss)/profit attributable to equity shareholders of the Company

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a profit of $76,441,000 (2004: $118,124,000) which has been dealt with in the financial statements of the Company.

10. Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2005 $'000	2004 $'000
Interim dividend declared and paid of 10.0 cents (2004: 10.0 cents) per share	32,120	31,462
Final dividend proposed after the balance sheet date of 28.0 cents (2004: 28.0 cents) per share	90,290	88,604
	122,410	120,066

The dividends attributable to the years ended 31 December 2004 and 2005 are scrip dividends with a cash option.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2005 $'000	2004 $'000
Special dividend in respect of the previous financial year, approved and paid during the year, of Nil cents (2004: 6.0 cents) per share	–	18,622
Final dividend in respect of the previous financial year, approved and paid during the year, of 28.0 cents (2004: 22.0 cents) per share	88,607	68,281
	88,607	86,903

In respect of the final dividend distribution declared and paid, a difference of $3,000 between the final dividend distribution proposed at year end and amount approved and paid during the year represents the additional dividend distribution to the holders of shares which were issued upon exercise of share options before the closing date of the register of members.

11. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of $178,976,000 (2004: $192,712,000 profit) and the weighted average of 318,304,488 shares (2004: 312,459,056 shares) in issue during the year.

(b) Diluted (loss)/earnings per share

Diluted loss per share for the year ended 31 December 2005 is the same as the basic loss per share as the potential ordinary shares outstanding during the year ended 31 December 2005 were anti-dilative.

The calculation of diluted earnings per share for the year ended 31 December 2004 was based on the profit attributable to equity shareholders of the Company of $192,712,000 and the weighted average number of shares of 314,348,690 shares after adjusting for the effects of all dilutive potential shares.

(c) Weighted average number of share

	2004 Number of shares
Weighted average number of shares used in calculating basic earnings per share	312,459,056
Effect of deemed issue of shares for no consideration arising from the Company's share options scheme	1,889,634
Weighted average number of shares used in calculating diluted earnings per share	314,348,690

12. Fixed assets

	The Group						
	Land and buildings held for own use $'000	Plant, machinery, tools and equipment $'000	Others $'000	Sub-total $'000	Investment properties $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:							
At 1 January 2004	283,474	514,375	200,595	998,444	–	40,445	1,038,889
Exchange adjustments	283	255	328	866	–	–	866
Additions	198	63,911	19,734	83,843	–	–	83,843
Transfer	1,771	416	(2,187)	–	–	–	–
Disposals	(3,248)	(904)	(54)	(4,206)	–	–	(4,206)
At 31 December 2004	282,478	578,053	218,416	1,078,947	–	40,445	1,119,392
At 1 January 2005	282,478	578,053	218,416	1,078,947	–	40,445	1,119,392
Exchange adjustments	486	1,285	272	2,043	–	127	2,170
Additions	3,039	99,452	12,671	115,162	–	–	115,162
Transfer	(21,296)	(6,894)	6,894	(21,296)	21,296	–	–
Disposals	(16)	(603)	(4,234)	(4,853)	–	(4,457)	(9,310)
At 31 December 2005	264,691	671,293	234,019	1,170,003	21,296	36,115	1,227,414
Accumulated amortisation and depreciation and impairment loss:							
At 1 January 2004	51,705	406,450	160,993	619,148	–	5,079	624,227
Exchange adjustments	75	224	200	499	–	2	501
Charge for the year	6,907	60,739	15,092	82,738	–	842	83,580
Transfer	26	36	(62)	–	–	–	–
Written back on disposals	(362)	(578)	(53)	(993)	–	–	(993)
At 31 December 2004	58,351	466,871	176,170	701,392	–	5,923	707,315
At 1 January 2005	58,351	466,871	176,170	701,392	–	5,923	707,315
Exchange adjustments	(56)	422	9	375	–	8	383
Charge for the year	6,378	48,095	18,225	72,698	446	750	73,894
Transfer	(10,238)	(4,823)	4,823	(10,238)	10,238	–	–
Impairment loss	63,240	7,443	–	70,683	–	10,352	81,035
Written back on disposals	(1)	(606)	(3,702)	(4,309)	–	(551)	(4,860)
At 31 December 2005	117,674	517,402	195,525	830,601	10,684	16,482	857,767
Net book value:							
At 31 December 2005	147,017	153,891	38,494	339,402	10,612	19,633	369,647
At 31 December 2004	224,127	111,182	42,246	377,555	–	34,522	412,077

(a) Other fixed assets comprise mainly leasehold improvements, furniture, fixtures, office equipment and motor vehicles.

(b) As a part of the Group's development strategy, the Group has decided to relocate the production operation in Malaysia to the Group's Shenzhen and Heyuan plants and the Hong Kong office premise in Tseung Kwan O to Kwun Tong. As a result, directors have assessed the recoverable amount of the related buildings and plant, machinery, tools and equipment and an impairment loss has been recognised as detailed above.

12. Fixed assets (Continued)

(c) The analysis of the net book value of properties is as follows:

	2005 $'000	2004 $'000
In Hong Kong		
– medium-term leases	89,982	140,469
Outside Hong Kong		
– freehold	523	537
– long-term leases	26,127	51,659
– medium-term leases	50,887	55,941
– no specified lease term	9,743	10,043
	87,280	118,180
	177,262	258,649

	2005 $'000	2004 $'000
Representing:		
Land and buildings held for own use	147,017	224,127
Investment properties	10,612	–
Interest in leasehold land held for own use under operating leases	19,633	34,522
	177,262	258,649

(d) Investment properties of the Group are stated at cost less accumulated depreciation.

(e) **Fixed assets leased out under operating leases**

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease after that date at which time all terms are renegotiated.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property. The fair value of the investment properties as at 31 December 2005, as determined by the directors of the Company by reference to recent market transactions in comparable properties, amounted to HK$19,208,000. Investment properties have not been valued by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2005 $'000	2004 $'000
Within 1 year	100	187
After one year but within 5 years	–	100
	100	287

13. Intangible assets

	The Group Patent rights	
	2005 $'000	2004 $'000
Cost:		
At 1 January and 31 December	30,845	30,845
Accumulated amortisation and impairment loss:		
At 1 January	(3,795)	(2,173)
Charge for the year	(1,622)	(1,622)
Impairment loss	(25,428)	–
At 31 December	(30,845)	(3,795)
Net book value:		
At 31 December	–	27,050

The amortisation charge for the year is included in "other operating expenses" in the consolidated income statement.

The above patent rights relate to business agreements to utilise certain technology in the production of displays. Following a change in business strategy on the use of this technology, the directors have reassessed the expected future cashflows to be generated and made a full impairment provision against the carrying amount at the year end.

14. Goodwill

	The Group	
	2005 $'000	2004 $'000
Cost:		
At 1 January	33,640	33,640
Opening balance adjustment to eliminate accumulated amortisation	(5,300)	–
At 31 December	28,340	33,640
Accumulated amortisation and impairment loss:		
At 1 January	(5,300)	(3,618)
Amortisation for the year	–	(1,682)
Eliminated against cost at 1 January 2005	5,300	–
Impairment loss	(28,340)	–
At 31 December	(28,340)	(5,300)
Carrying amount:		
At 31 December	–	28,340

14. Goodwill (Continued)

In 2004, positive goodwill not already recognised directly in reserve was amortised on a straight-line basis over twenty years. The amortisation of positive goodwill for the year ended 31 December 2004 was included in "other operating expenses" in the consolidated income statement.

As explained further in note 2(b), with effect from 1 January 2005 the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date.

Goodwill relates to the Group's production operation in Malaysia. As a part of the Group's development strategy, the Group has decided to relocate the Malaysia Operation to the Group's Shenzhen and Heyuan plants. As a result the directors have reassessed the recoverable amount of the related goodwill and an impairment loss has been recognised as detailed above.

15. Interest in subsidiaries

	The Company	
	2005 $'000	2004 $'000
Unlisted shares, at cost	101,453	101,453
Amounts due from subsidiaries	853,415	859,217
	954,868	960,670

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

15. Interest in subsidiaries (Continued)

Details of these subsidiaries are as follows:

Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
* Varitronix (B.V.I.) Limited	British Virgin Islands/ Hong Kong	18,480 ordinary shares of US$1 each	100%	100%	–	Investment holding
* Varintelligent (BVI) Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	100%	–	Holding and licensing of trademarks
Vogue Industries Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US$1 each	100%	100%	–	Investment holding
Varitronix Limited	Hong Kong	2 ordinary shares of $1,000 each 1,848 non-voting deferred ordinary shares of $1,000 each	100%	–	100%	Design, manufacture and sale of liquid crystal displays and related products
Varitronix (Malaysia) Sdn. Bhd.	Malaysia	38,000,000 Ordinary share of Myr$1 each	100%	–	100%	Design, manufacture and sale of liquid crystal displays and related products
#* Varitronix (Heyuan) Co. Ltd.	The People's Republic of China	Rmb78,910,000	90.1%	–	90.1%	Manufacture of liquid crystal displays and related products
#* Varitronix (Heyuan) Display Technology Limited	The People's Republic of China	Rmb192,919,473	100%	–	100%	Manufacture of liquid crystal displays and related products
* Varitronix Manufacturing (BVI) Limited	British Virgin Islands/The People's Republic of China	100 ordinary shares of US$1 each	100%	–	100%	Subcontract and operate production plant in the People's Republic of China
# Varitronix Pengyuan Limited	The People's Republic of China	Rmb8,000,000	51%	–	51%	Liquid crystal displays business
* Varitronix (Singapore) Pte Ltd.	Singapore	200,000 ordinary shares of SGD 1 each	100%	–	100%	Research development centre
* Varitronix (U.K.) Limited	United Kingdom	100 ordinary shares of £G10 each	100%	–	100%	Marketing and sales consultants

(Expressed in Hong Kong dollars)

15. Interest in subsidiaries (Continued)

Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
* VL Electronics, Inc.	United States	5,000 common stock of US$10 each	100%	–	100%	Marketing and sales consultants
* Varitronix (Canada) Limited	Canada	100 ordinary shares of C$1 each	100%	–	100%	Marketing and sales consultants
* Varitronix Italia, s.r.l.	Italy	25,000 ordinary shares of €0.52 each	100%	–	100%	Marketing and sales consultants
* Varitronix GmbH	Germany	100,000 shares of €0.51 each	60%	–	60%	Marketing and sales consultants
Varitronix (France) SAS	France	2,500 ordinary shares of €15.25 each	100%	–	100%	Marketing and sales consultants
Link Score Investment Limited	Hong Kong	100 ordinary shares of $1 each	100%	–	100%	Property investment and investment holding
Polysources Properties Limited	Hong Kong	2 ordinary shares of $100 each 154 non-voting deferred ordinary shares of $100 each	100%	–	100%	Property investment
* Starel Trading Limited	Republic of Cyprus/United Kingdom	1,000 shares of Cyprus £G1 each	100%	–	100%	Property investment
* Quest Industries Limited	British Virgin Islands/The People's Republic of China	100 ordinary shares of US$1 each	100%	–	100%	Property investment
Cadac Electronic (M) Sdn. Bhd.	Malaysia	276,002 ordinary shares of Myr$1 each	100%	–	100%	Property investment
Varitronix Finance Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US$1 each	100%	–	100%	Provision of financial co-ordination services for group companies and holding of securities
Varitronix Investment Limited	British Virgin Islands/ Hong Kong	5,000 ordinary shares of US$1 each	100%	–	100%	Investment holding

15. Interest in subsidiaries (Continued)

Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
* Varitronix Marketing Limited	British Virgin Islands/United Kingdom	1,000 shares of US$1 each	100%	–	100%	Investment holding
* Mcalpine Management Limited	British Virgin Islands/United Kingdom	1,000 shares of US$1 each	100%	–	100%	Investment holding
* Varitronix Marketing (China) Limited	British Virgin Island/The People's Republic of China	1 share of US$1	100%	–	100%	Investment holding
* Varitronix (Shenzhen) Limited	British Virgin Island/The People's Republic of China	1 share of US$1	100%	–	100%	Investment holding
Varitronix Agencies Limited	British Virgin Islands/ Hong Kong	50,000 shares of US$1 each	100%	–	100%	Dormant
* Varitronix Optech Limited	Hong Kong	100,000 ordinary shares of $1 each	100%	–	100%	Dormant
* Great Boom Developments Limited	British Virgin Islands/ Hong Kong	10,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
* Midsino Group Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Investment holding
* Sun Yik Group Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Investment holding
* Varitronix Shenzhen Linkscore Limited	The People's Republic of China	Rmb 500,000	100%	–	100%	Trading of liquid crystal display
* Varitronix (Macao Commercial Offshore) Limited	Macau	MOP 100,000	100%	–	100%	Trading of liquid crystal display
* Eastriver Investments Limited	British Virgin Islands/ Hong Kong	1,000 ordinary share of US$1 each	100%	–	100%	Investment holding

15. Interest in subsidiaries (Continued)

Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
# Varitronix Pengyuan Electronics Limited	The People's Republic of China	Rmb 15,000,000	59.42%	–	80%	Liquid crystal display business
* Varitronix LEP Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Property Investment

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total assets and total turnover constituting approximately 35% (2004: 14%) and 10% (2004: 8%) respectively of the related consolidated totals.

# Name of company	Type of legal entity
Varitronix (Heyuan) Co. Ltd.	Sino-foreign co-operative joint venture
Varitronix Pengyuan Limited	Sino-foreign equity joint venture
Varitronix (Heyuan) Display Technology Limited	Wholly-owned foreign enterprise
Varitronix Pengyuan Electronics Limited	Sino-foreign equity joint venture

16. Other non-current financial assets (at market value)

	The Group 2005 $'000	The Group 2004 $'000
Available-for-sale debt securities (2004: non-trading securities)		
Listed outside Hong Kong	22,994	23,930
Unlisted	27,828	18,947
	50,822	42,877
Available-for-sale equity securities (2004: non-trading securities)		
Listed in Hong Kong	134,462	5,360
Unlisted	1	7,751
Unlisted investment funds	40	4,501
	134,503	17,612
Total	185,325	60,489

Movements in available-for-sale securities are as follows:

	2005 $'000	2004 $'000
At 1 January	60,489	171,610
Additions	321,429	93,089
Disposals	(3,955)	(206,895)
Transfer to investment revaluation reserve	(16,863)	2,685
Impairment loss	(175,775)	–
Total	185,325	60,489

16. Other non-current financial assets (at market value) (Continued)

The above available-for-sale securities consist of certain long-term investments in companies engaging in OLED business and handset design business and other listed debt and equity securities. Of the additional investments made during the year, an impairment loss of $168,025,000 was made against the carrying amount at the year end as the directors have reassessed the expected future cashflows to be generated from these investments in view of the uncertain market situation.

In addition, an amount of $90,048,579 (2004: Nil) was invested into listed companies in respect of which a director and major shareholder of the Company is also a director and major shareholder of these invested companies. At 31 December 2005, the carrying amount of these listed investments amounted to $75,126,680 (2004: Nil).

17. Trading securities (at market value)

	The Group	
	2005 $'000	2004 $'000
Debt securities		
Listed outside Hong Kong	3,955	32,752
Unlisted	–	5,781
	3,955	38,533
Equity securities		
Listed		
– in Hong Kong	52,652	9,423
– outside Hong Kong	118,861	23,712
	171,513	33,135
Unlisted investment funds	17,797	18,918
	189,310	52,053
Total	193,265	90,586

18. Inventories

Inventories in the balance sheet comprise:

	The Group	
	2005 $'000	2004 $'000
Raw materials	119,545	188,703
Work in progress	31,310	42,579
Finished goods	82,782	81,133
	233,637	312,415

19. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) which are expected to be recovered within one year and have the following ageing analysis as of the balance sheet date:

	The Group	
	2005 $'000	2004 $'000
Within 60 days of the invoice issue date	320,436	437,715
61 to 90 days after the invoice issue date	33,888	40,565
91 to 120 days after the invoice issue date	7,350	5,255
More than 120 days but less than 12 months after the invoice issue date	20,143	17,647
More than 12 months after the invoice issue date	2,506	–
	384,323	501,182

Debts are due within 90 days from the date of the invoice.

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group			
		2005 '000		2004 '000
Euros	EUR	1,108	EUR	1,563
United States Dollars	USD	17,585	USD	20,288
Japanese Yen	JPY	67	JPY	9,614

20. Cash and cash equivalents

	The Group		The Company	
	2005 $'000	2004 $'000	2005 '000	2004 '000
Deposits with banks and other financial institutions	263,279	587,871	–	–
Cash at bank and in hand	152,566	81,535	316	419
Cash and cash equivalents in the balance sheet	415,845	669,406	316	419
Bank overdrafts	–	(12)		
Cash and cash equivalents in the consolidated cash flow statement	415,845	669,394		

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group				The Company			
		2005 '000		2004 '000		2005 '000		2004 '000
Renminbi	RMB	917	RMB	3,896	RMB	–	RMB	–
Great British Pounds	GBP	118	GBP	257	GBP	–	GBP	–
Japanese Yen	JPY	10,290	JPY	7,208	JPY	–	JPY	–
Canadian Dollars	CAD	546	CAD	535	CAD	–	CAD	–
Euros	EUR	6,669	EUR	2,653	EUR	–	EUR	–
Swedish Krona	SEK	–	SEK	2,629	SEK	–	SEK	–
Australian Dollars	AUD	5	AUD	5	AUD	–	AUD	–
United States Dollars	USD	33,192	USD	74,705	USD	13	USD	13

21. Bank loans and overdrafts

Unsecured, interest-bearing bank loans and overdrafts are repayable as follows:

	The Group	
	2005 $'000	2004 $'000
Within 1 year or on demand	98,549	98,750

Included in bank loans and overdrafts are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2005 '000	2004 '000
Japanese Yen	JPY 376,976	JPY 690,903

22. Trade and other payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	The Group	
	2005 $'000	2004 $'000
Within 60 days of supplier invoice date	200,217	216,675
61 to 120 days after supplier invoice date	32,178	23,268
More than 120 days but within 12 months after supplier invoice date	9,059	13,293
	241,454	253,236

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2005 '000	2004 '000
United States Dollars	USD 13,445	USD 13,158
Great British Pounds	GBP 9	GBP 4
Canadian Dollars	CAD 3	CAD 3
Euros	EUR 28	EUR 33
Malaysian Ringgit	MYR 4	MYR 4
Renminbi	RMB 4,615	RMB 3,741
Japanese Yen	JPY 435,921	JPY 627,141
Singapore Dollars	SGD 1	SGD 127
Swiss Francs	CHF 213	CHF –

23. Convertible notes

	The Group	
	2005 $'000	2004 $'000
At 31 December 2004 and 2005	30,109	31,200

23. Convertible notes (Continued)

The notes in issue at 31 December 2005 may be converted up to 26 September 2010 at the option of the noteholders into shares of the Company at a conversion price, subject to adjustment in certain circumstances, of $13.81 per share. The notes bear interest at 6 percent per annum until conversion of any portion of the notes, and thereafter at 2 percent per annum. In the event of conversion, the noteholders are required to return to the Group the amount of interest in excess of the rate of 2 percent per annum previously received. The convertible notes were redeemed at 85% of the face value of the notes ($26,520,000) in January 2006.

24. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group	
	2005 $'000	2004 $'000
Provision for Hong Kong Profits Tax for the year	22,007	19,336
Provisional Profits Tax paid	(354)	(267)
Balance of Profits Tax recoverable relating to prior years	(3,032)	(7,215)
Overseas tax	2,272	587
	20,893	12,441
Current taxation recoverable	(2,483)	(1,667)
Current taxation payable	23,376	14,108
	20,893	12,441

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation $'000	Tax allowances for intangible assets in excess of amortisation $'000	Provisions $'000	Others $'000	Total $'000
At 1 January 2004	8,666	5,017	(3,184)	–	10,499
Charged/(credited) to profit or loss	225	(283)	(3,718)	(1,346)	(5,122)
At 31 December 2004	8,891	4,734	(6,902)	(1,346)	5,377
At 1 January 2005	8,891	4,734	(6,902)	(1,346)	5,377
Charged/(credited) to profit or loss	(7,822)	(4,734)	(1,068)	895	(12,729)
At 31 December 2005	1,069	–	(7,970)	(451)	(7,352)

	The Group	
	2005 $'000	2004 $'000
Net deferred tax assets recognised on the balance sheet	(8,725)	(1,423)
Net deferred tax liabilities recognised on the balance sheet	1,373	6,800
	(7,352)	5,377

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note1(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $19,119,000 (2004: $2,316,000) as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

25. Equity settled share-based transactions

The Company had a Share Option Scheme for the employees of the Group which was adopted on 6 June 1991, subsequently amended on 8 June 1999 and expired on 5 June 2001. The options under the first Share Option Scheme are exercisable for a period of ten years following the date of grant. A second Share Option Scheme of the Company for the employees of the Group was adopted on 22 June 2001 and terminated on 12 May 2003. The options under the second Share Option Scheme are exercisable for a period of ten years following the date of grant.

A third Share Option Scheme of the Company was adopted on 12 May 2003 as an incentive to the Group's employees and business associates. The directors of the Company are authorised, at their discretion, to invite any employee, director, including executive and non-executive directors, or business associate of any company in the Group, to take up options to subscribe for shares at a price determined by the board and notified to each grantee and which will not be less than the closing price of the shares on the Stock Exchange on the date of offer of the option granted to such grantee or the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option granted to such grantee or the nominal value of the shares, whichever is higher.

The maximum number of shares in respect of which options may be granted under the third Share Option Scheme and any other Share Option Schemes of the Company may not exceed 10 percent of the issued share capital of the Company at the date of approval of the third Share Option Scheme. The options under the third Share Option Scheme are exercisable for a period of ten years from the date of grant.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors:			
– 9 June 1999	150,000	Immediate from the date of grant	10 years
– 30 October 2002	4,000,000	Immediate from the date of grant	10 years
– 21 December 2004	9,300,000	Immediate from the date of grant	10 years
– 22 July 2005	3,000,000	Immediate from the date of grant	10 years
– 19 December 2005	9,000,000	Immediate from the date of grant	10 years
Options granted to employees:			
– 9 June 1999	430,250	Immediate from the date of grant	10 years
– 1 June 2000	688,000	Immediate from the date of grant	10 years
– 30 August 2001	265,000	Immediate from the date of grant	10 years
– 13 September 2002	199,000	Immediate from the date of grant	10 years
– 6 October 2003	433,000	Immediate from the date of grant	10 years
– 20 December 2004	2,596,000	Immediate from the date of grant	10 years

(b) The number and weighted average exercise prices of share options are as follows:

	2005		2004	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	$6.979	18,061,250	$6.0600	6,393,750
Granted during the year	$5.948	12,000,000	$7.4609	11,896,000
Forfeited during the year	$7.633	(6,555,000)	$9.3270	(69,500)
Exercised during the year	$4.623	(2,256,000)	$5.0850	(159,000)
Outstanding at the end of the year		21,250,250		18,061,250
Exercisable at the end of the year		21,250,250		18,061,250

The weighted average share price at the date of exercise for shares options exercised during the year was $6.063 (2004: $7.615).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model. The contractual life of the option is used as an input into this model.

25. Equity settled share-based transactions (Continued)

Fair value of share options and assumptions

	2005 $'000
Fair value at measurement date	0.948
Share price	5.88
Exercise price	5.89
Expected volatility (expressed as weighted average volatility)	31.9%
Option life	5 years
Expected dividends	6.50%
Risk-free interest rate (based on Exchange Fund Notes)	4.02%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant rate fair value measurement of the services received. There were no market conditions associated with the share option grants.

26. Capital and reserves

(a) The Group

	Attributable to equity shareholders of the Company								
2004	Share capital (note c) $'000	Share premium (note d(i)) $'000	Exchange reserve (note d(iii)) $'000	Fair value revaluation reserve (note d(iv)) $'000	Other reserves (note d(vi)) $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 January 2004	77,574	616,286	(16,473)	2,492	1,933	745,406	1,427,218	39,381	1,466,599
Special and final dividends approved in respect of the previous year	–	–	–	–	–	(86,903)	(86,903)	–	(86,903)
Shares issued under share option scheme	40	419	–	–	–	–	459	–	459
Allotment of shares from scrip dividends	1,445	40,684	–	–	–	–	42,129	–	42,129
Available-for-sale securities:									
– changes in fair value	–	–	–	2,685	–	–	2,685	–	2,685
– transfer to profit or loss on disposal	–	–	–	188	–	–	188	–	188
Dividend payable to minority interests	–	–	–	–	–	–	–	(6,784)	(6,784)
Interim dividend declared in respect of the current year	–	–	–	–	–	(31,462)	(31,462)	–	(31,462)
Profit for the year	–	–	–	–	–	192,712	192,712	23,110	215,822
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	4,004	–	–	–	4,004	201	4,205
At 31 December 2004	79,059	657,389	(12,469)	5,365	1,933	819,753	1,551,030	55,908	1,606,938

26. Capital and reserves (Continued)

(a) The Group (Continued)

2005	Share capital (note c) $'000	Share premium (note d(i)) $'000	Exchange reserve (note d(iii)) $'000	Fair value revaluation reserve (note d(iv)) $'000	Capital reserve (note d(v)) $'000	Other reserves (note d(vi)) $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
	Total attributable to equity shareholders of the Company									
At 1 January 2005	79,059	657,389	(12,469)	5,365	–	1,933	819,753	1,551,030	55,908	1,606,938
Opening balance adjustments on adoption of HKAS 39 (note 2(c))	–	–	–	–	1,961	–	(680)	1,281	–	1,281
As restated, after opening balance adjustments	79,059	657,389	(12,469)	5,365	1,961	1,933	819,073	1,552,311	55,908	1,608,219
Final dividends approved in respect of the previous year	–	–	–	–	–	–	(88,607)	(88,607)	–	(88,607)
Shares issued under share option scheme	564	9,866	–	–	–	–	–	10,430	–	10,430
Allotment of shares from scrip dividends	991	23,565	–	–	–	–	–	24,556	–	24,556
Available-for-sale securities:										
– changes in fair value	–	–	–	(16,863)	–	–	–	(16,863)	–	(16,863)
– transfer to profit or loss on disposal	–	–	–	(70)	–	–	–	(70)	–	(70)
Capital contribution by minority interest shareholder	–	–	–	–	–	–	–	–	2,820	2,820
Equity settled share-based transactions	–	–	–	–	11,373	–	–	11,373	–	11,373
Transfer to other reserves	–	–	–	–	–	49	(49)	–	–	–
Interim dividend declared in respect of the current year	–	–	–	–	–	–	(32,120)	(32,120)	–	(32,120)
Loss for the year	–	–	–	–	–	–	(178,976)	(178,976)	(25,343)	(204,319)
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	7,111	–	–	–	–	7,111	407	7,518
At 31 December 2005	80,614	690,820	(5,358)	(11,568)	13,334	1,982	519,321	1,289,145	33,792	1,322,937

26. Capital and reserves (Continued)

(b) The Company

	Share capital (note c) $'000	Share premium (note d(i)) $'000	Contributed surplus (note d(ii)) $'000	Capital reserve (note d(v)) $'000	Retained profits $'000	Total $'000
At 1 January 2004	77,574	616,286	51,636	–	157,370	902,866
Special and final dividends approved in respect of the previous year	–	–	–	–	(86,903)	(86,903)
Shares issues under share option scheme	40	419	–	–	–	459
Allotment of shares from scrip dividends	1,445	40,684	–	–	–	42,129
Profit for the year	–	–	–	–	118,124	118,124
Interim dividend declared in respect of the current year	–	–	–	–	(31,462)	(31,462)
At 31 December 2004	79,059	657,389	51,636	–	157,129	945,213
At 1 January 2005	79,059	657,389	51,636	–	157,129	945,213
Final dividend approved in respect of the previous year	–	–	–	–	(88,607)	(88,607)
Shares issues under share option scheme	564	9,866	–	–	–	10,430
Allotment of shares from scrip dividends	991	23,565	–	–	–	24,556
Equity settled share-based transaction	–	–	–	11,373	–	11,373
Profit for the year	–	–	–	–	76,441	76,441
Interim dividend declared in respect of the current year	–				(32,120)	(32,120)
At 31 December 2005	80,614	690,820	51,636	11,373	112,843	947,286

(c) Share capital

(i) Authorised and issued share capital

	2005 No. of shares '000	2005 Amount $'000	2004 No. of shares '000	2004 Amount $'000
Authorised:				
Ordinary shares of $0.25 each	400,000	100,000	400,000	100,000
Issued and fully paid:				
At 1 January	316,235	79,059	310,295	77,574
Shares issued under share option scheme	2,256	564	159	40
Allotment of shares from scrip dividends	3,964	991	5,781	1,445
At 31 December	322,455	80,614	316,235	79,059

26. Capital and reserves (Continued)

(c) Share capital (Continued)

(ii) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price $	2005 Number	2004 Number
9 July 1999 to 8 July 2009	10.900	357,750	580,250
1 July 2000 to 30 June 2010	11.300	569,000	688,000
30 August 2001 to 29 August 2011	3.060	140,000	265,000
13 September 2002 to 12 September 2012	3.905	153,500	199,000
31 October 2002 to 30 October 2012	4.605	2,000,000	4,000,000
6 October 2003 to 5 October 2013	7.350	301,500	433,000
20 December 2004 to 19 December 2014	7.500	2,428,500	2,596,000
21 December 2004 to 20 December 2014	7.450	3,300,000	9,300,000
22 July 2005 to 21 July 2015	6.600	3,000,000	–
19 December 2005 to 18 December 2015	5.730	9,000,000	–
		21,250,250	18,061,250

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 25 to the financial statements.

(iii) Shares issued under share option scheme

Shares issued under the share option scheme during the year were exercised to subscribe for 2,256,000 (2004: 159,000) ordinary shares in the Company at a consideration of $10,430,000 (2004: $808,518) of which $564,000 (2004: $39,750) was credited to share capital and the balance of $9,866,000 (2004: $768,768) was credited to the share premium account.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by sections 150 and 157 of the Company's Articles of Association and the Companies Act 1981 of Bermuda.

(ii) Contributed surplus

The excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation scheme in 1991 over the nominal value of the new shares of the Company issued in exchange is credited to the contributed surplus account. Under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. However, the directors have no current intention to distribute this surplus.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(t).

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 1(h) and (i).

(v) Capital reserve

The capital reserve comprises the following:

- the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognized in accordance with the accounting policy adopted for share based payments in note 1(p)(ii).

- the value of the unexercised equity component of convertible notes issued by the Company recognized in accordance with the accounting policy adopted for convertible notes in note 1(s).

26. Capital and reserves (Continued)

(d) Nature and purpose of reserves (Continued)

(vi) Other reserves

Other reserves comprise statutory reserves required in respect of the PRC incorporated subsidiaries.

(vii) Distributability of reserves

At 31 December 2005, the aggregate amount of reserves available for distribution to shareholders of the Company was $164,479,000 (2004: $208,765,000).

27. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segment

As all of the Group's turnover and profits were derived from the design, manufacture and sale of liquid crystal displays and related products, accordingly no separate business segment analysis is presented for the Group.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong and PRC		Rest of Asia		Europe		North America		Others		Total	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Revenue from external customers	828,255	941,308	371,894	298,571	635,913	632,932	88,387	89,103	55,358	44,417	1,979,807	2,006,331
Segment assets	1,396,501	1,869,751	197,680	119,683	114,469	95,300	100,496	26,893				
Capital expenditure incurred during the year	112,344	80,432	850	2,571	1,950	793	18	47				

Revenue from external customers located in Europe is analysed as follows:

	2005 $'000	2004 $'000
France	160,775	127,224
United Kingdom	116,737	100,358
Germany	131,500	146,087
Other European countries	226,901	259,263
	635,913	632,932

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

28. Financial instruments

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to accounts receivable and other receivables. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

28. Financial instruments (Continued)

(a) Credit risk (Continued)

Credit evaluations are performed on all customers requiring credit over a certain amount. Customers are generally granted credit terms of 30 – 90 days. Normally, the Group does not obtain collateral from customers.

Bank deposits and cash at bank are placed with reputable banks.

At the balance sheet date, the Group has a certain concentration of credit risk as 28% (2004: 37%) of the total accounts receivable and other receivables was due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of accounts receivable and other receivables in the balance sheet.

(b) Liquidity risk

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 major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as investment of surplus cash, raising of loans and settlement of suppliers' invoices beyond certain limits.

(c) Interest rate risk

Bank deposits and cash, and bank loans are the major types of the Group's financial instruments subject to interest rate risk.

The bank deposits and cash comprise mainly bank deposits with fixed interest rates ranging from 1.375% to 4.25% per annum and the maturity dates of these bank deposits are within 1 year.

The bank loans bear interest at 0.58% per annum over 7-day HIBOR and are repayable within 1 year. Other details of the bank loans are set out in note 21.

(d) Foreign currency risk

(i) Forecast transactions

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 Euros, United States dollars, Japanese Yen and Reminbi.

(e) Fair values

No disclosure of fair value is required as all the Group's financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005.

29. Capital and other commitments

(a) Capital commitments representing purchase of property, plant and equipment not provided for in the financial statements were as follows:

	The Group	
	2005 $'000	2004 $'000
Contracted for	1,989	7,184

(b) Other commitments

At 31 December 2005 in addition to the above, the Group had commitments to contribute capital of $38,400,000 for the acquisition of all the remaining interest, not held by the Group, in a non-wholly owned subsidiary in the PRC.

29. Capital and other commitments (Continued)

(c) **At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases for properties are payable as follows:**

	2005 $'000	2004 $'000
Within 1 year	3,836	3,657
After 1 year but within 5 years	2,685	5,429
	6,521	9,086

30. Contingent liabilities

At 31 December 2005, the Company had contingent liabilities for guarantees given to banks in respect of banking facilities granted to certain subsidiaries, which were utilised to the extent of $99,992,000 (2004: $76,674,000).

31. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors is disclosed in note 6 and certain of the highest paid employees is disclosed in note 7.

32. 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.

33. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2005

Up to the date of issue of these financial statements, the HKICPA has issued the number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.