Notes to Financial Statements

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1. CORPORATE INFORMATION

Man Yue International Holdings Limited (the "Company") was incorporated in Bermuda with limited liability.

During the year, the principal activities of the Group consist of the manufacturing and trading of electronic components and the trading of raw materials.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

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

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
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 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, 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
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 31, 33, 37, 38, HKFRS 2 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated income statement and other disclosures.

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the capital and share premium were credited with the proceeds received. The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees on or before 7 November 2002. Accordingly, the adoption of HKFRS 2 has no impact on these financial statements.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were carried at valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

The effect of adopting HKAS 17 are summarised in note 2.4 to the financial statements. The changes have been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

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31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In prior years, long term investments, which were held for non-trading purposes, were stated at cost less any impairment losses. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment. In accordance with the transitional provisions of HKAS 39, an adjustment of the previous carrying amount is made against the opening balance of available-for-sale investment revaluation reserve at 1 January 2005.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(ii) Derivative financial instruments – Foreign currency contracts and interest rate swaps

Forward currency contracts held to hedge forecast transactions are designated as cash flow hedges from 1 January 2005 and are recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, until the transaction which is being hedged is itself recognised in the financial statements. The ineffective portion of the hedge (if any) is recognised immediately in the income statement. Previously, forward currency contracts held to hedge firm future commitments were deferred on the balance sheet until the item being hedged was itself recognised.

Interest rate swaps not qualifying for hedge accounting are classified as held for trading and are recorded at fair value. Any gains or losses arising from changes in fair value are recognised in the income statement. Previously, these interest rate swaps were deferred on the balance sheet until the contractual settlement dates.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against the consolidated capital reserve in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

In prior years, goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets *(continued)*

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and jointly controlled entities (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005)
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics (effective for annual periods beginning on or after 1 March 2006)

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The HKAS 1 Amendment shall be applied for annual reporting periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. The adoption of the amendments to HKAS 39 regarding financial guarantee contracts will result in the recognition of a financial liability in the Company's balance sheet in respect of corporate guarantees given by the Company in connection with banking facilities granted to its subsidiaries in the year of initial application.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting			
At 1 January 2005	**HKAS 17#**	**HKASs 32 and 39***	**HKFRS 3***	
Effect of new policies (Increase/(decrease))	**Prepaid land premiums**	**Equity investments**	**Derecognition of negative goodwill**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Property, plant and equipment	(33,257)	–	–	(33,257)
Prepaid land premiums	30,992	–	–	30,992
Negative goodwill	–	–	566	566
Interests in jointly controlled entities	–	–	203	203
Available-for-sale equity investments	–	15,236	–	15,236
Long term investments	–	(12,382)	–	(12,382)
Prepayments, deposits and other receivables	663	–	–	663
	(1,602)	2,854	769	2,021
Liabilities/equity				
Deferred tax liabilities	(1,186)	–	–	(1,186)
Asset revaluation reserve	(3,138)	–	–	(3,138)
Available-for-sale investment revaluation reserve	–	2,854	–	2,854
Capital reserve	–	–	(417)	(417)
Retained profits	2,722	–	1,186	3,908
	(1,602)	2,854	769	2,021

Adjustments/presentation taken effect retrospectively

* Adjustments taken effect prospectively from 1 January 2005

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Effect on the consolidated balance sheet *(continued)*

At 31 December 2005	Effect of adopting				
	HKAS 17	HKASs 32 and 39	HKAS 39	HKFRS 3	
Effect of new policies (Increase/(decrease))	Prepaid land premiums	Equity investments	Cash flow hedges and derivative instruments - transactions not qualifying as hedges	Derecognition of negative goodwill	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Property, plant and equipment	(39,494)	–	–	–	(39,494)
Prepaid land premiums	30,849	–	–	–	30,849
Negative goodwill	–	–	–	290	290
Interests in jointly controlled entities	–	–	–	102	102
Available-for-sale equity investments	–	13,806	–	–	13,806
Long term investments	–	(11,986)	–	–	(11,986)
Prepayments, deposits and other receivables	663	–	–	–	663
Derivative financial instruments	–	–	1,554	–	1,554
	(7,982)	1,820	1,554	392	(4,216)
Liabilities/equity					
Derivative financial instruments	–	–	1,667	–	1,667
Deferred tax liabilities	(2,983)	–	–	–	(2,983)
Asset revaluation reserve	(7,280)	–	–	–	(7,280)
Hedging reserve	–	–	(768)	–	(768)
Available-for-sale investment revaluation reserve	–	1,815	–	–	1,815
Capital reserve	–	–	–	(417)	(417)
Retained profits	2,281	5	655	809	3,750
	(7,982)	1,820	1,554	392	(4,216)

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17 Prepaid land premiums	Effect of adopting HKASs 32 & 39 Equity investments	Effect of adopting HKFRS 3 Derecognition of negative goodwill	Total
	HK$'000	HK$'000	HK$'000	HK$'000
1 January 2004				
Retained profits	2,804	–	–	2,804
1 January 2005				
Asset revaluation reserve	(3,138)	–	–	(3,138)
Available-for-sale investment revaluation reserve	–	2,854	–	2,854
Capital reserve	–	–	(417)	(417)
Retained profits	2,722	–	1,186	3,908
	(416)	2,854	769	3,207

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting HKAS 17 Prepaid land premiums	Effect of adopting HKAS 39 Derivative instruments - transactions not qualifying as hedges	Effect of adopting HKFRS 3 Derecognition of negative goodwill	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005				
Increase/(decrease) in other income and gains	–	655	(377)	278
Increase in administrative expenses	(440)	–	–	(440)
Total increase/(decrease) in profit	(440)	655	(377)	(162)
Year ended 31 December 2004				
Increase in administrative expenses and total decrease in profit	(82)	–	–	(82)

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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'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 is treated as:

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

(b) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) 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's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill and negative goodwill

Goodwill arising on the acquisition of subsidiaries and jointly controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Notes to Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill and negative goodwill *(continued)*

Negative goodwill arising on the acquisition of subsidiaries and jointly controlled entities represents the excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities as at the date of acquisition over the cost of the acquisition. Upon the adoption of HKFRS 3, the negative goodwill (including those included in the consolidated capital reserve and interests in jointly controlled entities) is derecognised against the opening balance of retained profits as at 1 January 2005.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2%
Machinery and equipment	9% – 20%
Furniture and fixtures	18% – 20%
Motor vehicles	18% – 20%
Leasehold improvements	9% – 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, office premises and workers' dormitories and related infrastructure projects under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Technology know-how

Technology know-how was acquired for use in the production of certain high technology electronic components. Expenditure incurred on the acquisition of technology know-how is capitalised and stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis over the useful life of the technology know-how of three years.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries and jointly controlled entities, as long term investments and short term investments.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis. They are stated at cost less impairment losses.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in fair value of a security are credited or charged to the income statement in the year in which they arise.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (applicable to the year 31 December 2005) *(continued)*

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance amount. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (applicable to the year 31 December 2005) *(continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005) *(continued)*

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting; or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005) *(continued)*

Cash flow hedges (continued)

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the 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 estimated selling prices less any estimated costs to be incurred to completion and disposal.

Trade and other receivables

Trade and other receivables generally have credit terms ranging from 15 to 150 days.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and 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.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Trade and other payables

Liabilities for trade and other payables, which are normally settled on terms of 7 to 120 days, are carried at costs which is fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Income tax

Income tax comprises current and deferred tax. 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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination 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 interests in joint ventures, 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 credits 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 credits 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 in a transaction that is not a business combination 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 interests in joint ventures, 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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.

Sales of goods are recognised when goods are delivered and title has passed.

Service income and commission income are recognised when services are provided.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees on or before 7 November 2002.

The financial impact of share options granted to employees on or before 7 November 2002 under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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 Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. 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.

Pension schemes

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' basic salaries and are charged to the income statement 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.

The employees of the Group's subsidiaries which operate in the Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Notes to Financial Statements

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and jointly controlled entities are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT

Classification of available-for-sale equity investments in current assets

The Group has determined that these investments are expected to be realised within twelve months after the balance sheet date.

4. SEGMENT INFORMATION

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

The Group's operating businesses 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 other business segments. Summary details of the business segments are as follows:

(a) the electronic components and electrical products segment engages in the manufacture and trading of electronic components, particularly aluminum electrolytic capacitors ("E-Caps"), and the trading of electrical products;

(b) the trading of raw materials segment engages mainly in the trading of aluminium foils; and

(c) the corporate and others segment comprises the Group's trading of production machinery together with corporate income and expense items.

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.

Notes to Financial Statements

31 December 2005

4. 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 for the years ended 31 December 2005 and 2004.

Group	Electronic components and electrical products		Trading of raw materials		Corporate and others		Consolidated	
	2005 HK$'000	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)
Segment revenue:								
Sales to external customers	**1,048,550**	806,385	**55,584**	64,525	**–**	–	**1,104,134**	870,910
Other revenue	**1,883**	2,097	**–**	525	**–**	–	**1,883**	2,622
Total	**1,050,433**	808,482	**55,584**	65,050	**–**	–	**1,106,017**	873,532
Segment results	**114,790**	78,433	**767**	2,135	**(249)**	(630)	**115,308**	79,938
Interest and dividend income and unallocated gains							**1,799**	1,169
Finance costs							**(11,602)**	(7,043)
Share of profits and losses of jointly controlled entities	**1,225**	(4,237)	**–**	–	**–**	–	**1,225**	(4,237)
Profit before tax							**106,730**	69,827
Tax							**(11,034)**	(7,771)
Profit for the year							**95,696**	62,056

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group	Electronic components and electrical products		Trading of raw materials		Corporate and others		Consolidated	
	2005 HK$'000	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)
Assets and Liabilities								
Segment assets	**967,466**	726,876	**3,416**	971	**9,414**	7,319	**980,296**	735,166
Interests in jointly controlled entities	**24,457**	3,310	**–**	–	**–**	–	**24,457**	3,310
Unallocated assets							**18,381**	17,464
Total assets							**1,023,134**	755,940
Segment liabilities	**198,003**	148,285	**39,576**	33,421	**22,194**	19,925	**259,773**	201,631
Unallocated liabilities							**318,920**	229,200
Total liabilities							**578,693**	430,831
Other segment information:								
Depreciation	**36,535**	34,745	**13**	–	**–**	21	**36,548**	34,766
Amortisation	**187**	447	**–**	–	**–**	–	**187**	447
Provision/(reversal of provision) for long service payments	**–**	–	**–**	–	**567**	(475)	**567**	(475)
Negative goodwill recognised as income	**–**	276	**–**	–	**–**	–	**–**	276
Impairment of goodwill	**484**	–	**–**	–	**–**	–	**484**	–
Surplus on revaluation recognised directly in equity	**6,353**	44	**–**	–	**–**	–	**6,353**	44
Capital expenditure	**131,216**	79,486	**177**	–	**–**	–	**131,393**	79,486

Notes to Financial Statements

31 December 2005

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

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

Group	Greater China													
	Hong Kong		Mainland China		Taiwan		Southeast Asia		Korea		Other countries		Consolidated	
	2005 HK$'000	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)	**2005 HK$'000**	2004 HK$'000 (Restated)
Segment revenue:														
Sales to external customers	**160,292**	135,127	**263,345**	216,621	**342,618**	342,741	**191,814**	107,932	**124,291**	49,821	**21,774**	18,668	**1,104,134**	870,910
Other segment information:														
Segment assets	**162,794**	120,062	**703,951**	531,736	**42,364**	55,048	**51,638**	21,439	**16,535**	5,543	**3,014**	1,338	**980,296**	735,166
Interests in jointly controlled entities	**–**	–	**24,457**	3,310	**–**	–	**–**	–	**–**	–	**–**	–	**24,457**	3,310
Unallocated assets													**18,381**	17,464
Total assets													**1,023,134**	755,940
Capital expenditure	**2,605**	3,094	**128,611**	76,392	**–**	–	**–**	–	**–**	–	**177**	–	**131,393**	79,486

5. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for trade returns and discounts.

An analysis of revenue is as follows:

	2005 HK$'000	2004 HK$'000
Manufacture and trading of electronic components	**1,048,550**	806,385
Trading of raw materials	**55,584**	64,525
	1,104,134	870,910

Notes to Financial Statements

31 December 2005

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting) the following:

	2005 HK$'000	2004 HK$'000 (Restated)
Staff costs (including directors' remuneration):		
Wages and salaries	**100,944**	79,647
Pension scheme contributions	**1,969**	2,206
Provision/(reversal of provision) for long service payments	**567**	(475)
Minimum lease payments under operating leases for land and buildings	**12,355**	10,902
Depreciation for property, plant and equipment	**36,548**	34,766
Amortisation of other intangible assets *	**187**	326
Amortisation of goodwill **	**–**	121
Impairment of goodwill	**484**	–
Auditors' remuneration	**1,100**	818
Foreign exchange losses, net	**704**	2,098
Loss on disposal of items of property, plant and equipment	**2,321**	20
Impairment of trade receivables	**3,935**	2,045
Write-down of inventories to net realisable value	**1,422**	–
Fair value loss on short term investments	**29**	–
Fair value gain on derivative instruments - transactions not qualifying as hedges	**(655)**	–
Bank interest income	**(557)**	(189)
Negative goodwill recognised as income ***	**–**	(276)
Deferred income recognised as income	**(248)**	–
Gain on disposal of available-for-sale equity investments/ long term investments	**(53)**	(736)
Loss on disposal of short term investments	**16**	–
Dividend income from listed investments	**(1,189)**	(244)

* The amortisation of other intangible assets for the year is included in "Cost of sales" on the face of the consolidated income statement.

** The amortisation and impairment of goodwill were included in "Other operating expenses" on the face of the consolidated income statement.

*** The negative goodwill recognised as income for the prior year was included in "Other income and gains" on the face of the consolidated income statement.

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7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank loans	**11,314**	6,437
Interest on finance leases	**288**	606
	11,602	7,043

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Fees	**649**	444
Other emoluments		
Salaries and allowances	**4,634**	4,202
Pension scheme contributions	**24**	24
Discretionary bonuses	**4,633**	3,035
Total directors' remuneration	**9,940**	7,705

(a) Fees

The fees paid to independent non-executive directors during the year were as follows:

	2005	2004
	HK$'000	HK$'000
Mar, Selwyn	**222**	52
Li Sau Hung, Eddy	**240**	220
Lo Kwok Kwei, David	**187**	172
	649	444

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

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8. DIRECTORS' REMUNERATION *(continued)*

(b) Other emoluments

	Salaries and allowances HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005				
Executive directors:				
Chan Ho Sing	3,860	4,300	12	8,172
Ko Pak On	774	333	12	1,119
	4,634	4,633	24	9,291
2004				
Executive directors:				
Chan Ho Sing	3,500	2,675	12	6,187
Ko Pak On	702	360	12	1,074
	4,202	3,035	24	7,261

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2004: three) non-director, highest paid employees for the year are as follows:

	Group 2005 HK$'000	2004 HK$'000
Salaries and allowances	**3,951**	3,068
Bonuses	**505**	784
Pension scheme contributions	**36**	36
	4,492	3,888

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

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

Notes to Financial Statements

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10. TAX

	Group 2005 HK$'000	Group 2004 HK$'000
Current – Hong Kong		
Charge for the year	**6,403**	4,419
Current – Mainland China		
Charge for the year	**3,920**	4,956
Deferred *(note 30)*	**711**	(1,604)
Total tax charge for the year	**11,034**	7,771

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.

In accordance with the relevant tax rules and regulations in Mainland China, certain of the Company's subsidiaries in Mainland China enjoy tax exemptions and reductions. Certain subsidiaries in Mainland China are subject to income taxes at applicable rates ranging from 10% to 27%.

The tax affairs of certain subsidiaries of the Group for prior years are currently review by the Hong Kong Inland Revenue Department. Whilst management considers that the subsidiaries have grounds to support their tax position for prior years, the outcome of the review remains undetermined at the date of this report. The directors of the Company, after consultation with the Company's tax advisers, consider that it is premature to estimate the amount of potential liabilities, if any, that may arise from the review and accordingly no additional tax provision has been made in the financial statements as at 31 December 2005.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company, the majority of its subsidiaries and jointly controlled entities are domiciled to the tax expense at the effective tax rates as follows:

Group – 2005

	Hong Kong		Mainland China		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	38,715		68,904		(889)		106,730	
Tax at the statutory tax rate	6,775	17.5	6,890	10.0	(78)	8.8	13,587	12.7
Lower tax rate for specific local authority	–		(1,138)		–		(1,138)	
Profits and losses attributable to jointly controlled entity	–		–		–		–	
Income not subject to tax	(864)		(1,673)		–		(2,537)	
Expenses not deductible for tax	707		–		–		707	
Tax losses utilised from previous periods	(577)		–		–		(577)	
Tax losses not recognised	914		–		78		992	
Tax charge at the Group's effective rate	6,955	18.0	4,079	5.9	–	–	11,034	10.3

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10. TAX *(continued)*

Group – 2004

	Hong Kong		Mainland China		Others		Total	
	HK$'000 (Restated)	%	HK$'000	%	HK$'000	%	HK$'000 (Restated)	%
Profit/(loss) before tax	28,667		42,406		(1,246)		69,827	
Tax at the statutory tax rate	5,017	17.5	3,132	7.4	(187)	15.0	7,962	11.4
Income not subject to tax	(289)		(112)		–		(401)	
Expenses not deductible for tax	666		319		–		985	
Tax losses utilised from previous periods	(1,056)		–		–		(1,056)	
Tax losses not recognised	88		6		187		281	
Tax charge at the Group's effective rate	4,426	15.4	3,345	7.9	–	–	7,771	11.1

11. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit for the year attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$18,450,000 (2004: loss of HK$1,880,000).

12. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim – HK1.50 cents (2004: Nil) per ordinary share	**6,133**	–
Proposed final – HK2.00 cents (2004: HK2.00 cents) per ordinary share	**8,305**	7,457
	14,438	7,457

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK$95,696,000 (2004: HK$61,867,000, as restated) and the weighted average of 386,558,000 (2004: 369,264,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$95,696,000 (2004: HK$61,867,000, as restated). The weighted average number of ordinary shares used in the calculation is the 386,558,000 (2004: 369,264,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 29,417,000 (2004: 161,000) and 5,186,000 (2004: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants and share options, respectively, during the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost or valuation	6,265	337,658	12,965	5,497	24,853	17,764	405,002
Accumulated depreciation	–	(103,790)	(9,346)	(2,578)	(17,406)	–	(133,120)
Net carrying amount	6,265	233,868	3,619	2,919	7,447	17,764	271,882
At 1 January 2005, net of accumulated depreciation	6,265	233,868	3,619	2,919	7,447	17,764	271,882
Additions	539	75,691	2,518	4,196	116	48,333	131,393
Disposals	–	(99)	(137)	–	(2,148)	–	(2,384)
Surplus on revaluation	6,353	–	–	–	–	–	6,353
Depreciation provided during the year	(533)	(31,389)	(997)	(908)	(2,721)	–	(36,548)
Transfers	52,220	692	–	–	–	(52,912)	–
Exchange realignment	–	5,158	61	52	147	406	5,824
At 31 December 2005, net of accumulated depreciation	64,844	283,921	5,064	6,259	2,841	13,591	376,520
At 31 December 2005:							
Cost or valuation	64,844	421,326	15,064	9,222	22,227	13,591	546,274
Accumulated depreciation	–	(137,405)	(10,000)	(2,963)	(19,386)	–	(169,754)
Net carrying amount	64,844	283,921	5,064	6,259	2,841	13,591	376,520
Analysis of cost or valuation:							
At cost	–	421,326	15,064	9,222	22,227	13,591	481,430
At 2005 valuation	64,844	–	–	–	–	–	64,844
	64,844	421,326	15,064	9,222	22,227	13,591	546,274

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14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	Buildings HK$'000 (Restated)	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2004							
At 1 January 2004:							
Cost or valuation	6,348	289,262	12,140	3,892	23,851	–	335,493
Accumulated depreciation	–	(74,962)	(8,439)	(2,010)	(12,999)	–	(98,410)
Net carrying amount	6,348	214,300	3,701	1,882	10,852	–	237,083
At 1 January 2004, net of accumulated depreciation	6,348	214,300	3,701	1,882	10,852	–	237,083
Additions	–	48,010	838	1,601	964	17,764	69,177
Disposals	–	(15)	(7)	–	–	–	(22)
Surplus on revaluation	44	–	–	–	–	–	44
Depreciation provided during the year	(127)	(28,770)	(918)	(567)	(4,384)	–	(34,766)
Exchange realignment	–	343	5	3	15	–	366
At 31 December 2004, net of accumulated depreciation	6,265	233,868	3,619	2,919	7,447	17,764	271,882
At 31 December 2004:							
Cost or valuation	6,265	337,658	12,965	5,497	24,853	17,764	405,002
Accumulated depreciation	–	(103,790)	(9,346)	(2,578)	(17,406)	–	(133,120)
Net carrying amount	6,265	233,868	3,619	2,919	7,447	17,764	271,882
Analysis of cost or valuation:							
At cost	–	337,658	12,965	5,497	24,853	17,764	398,737
At 2004 valuation	6,265	–	–	–	–	–	6,265
	6,265	337,658	12,965	5,497	24,853	17,764	405,002

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of machinery and equipment at 31 December 2005 amounted to HK$7,584,000 (2004: HK$28,246,000).

At 31 December 2004, certain of the Group's machinery and equipment in Mainland China with an aggregate net book value of approximately HK$10,566,000 were pledged to banks to secure general banking facilities granted to the Group, as set out in note 26 to the financial statements.

The Group's buildings were revalued individually at the balance sheet date by Chung, Chan & Associates, independent chartered surveyors, at an aggregate open market value of HK$64,844,000, based on their existing use. A revaluation surplus of HK$6,353,000, resulting from the above valuations, together with deferred tax charge of HK$1,885,000, has been included in the asset revaluation reserve. Had these-buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying values would have been approximately HK$57,398,000 (2004: HK$5,185,000).

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15. PREPAID LAND PREMIUMS

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 January:		
As previously reported	**–**	–
Effect of adopting HKAS 17	**31,655**	9,181
As restated	**31,655**	9,181
Additions	**–**	22,683
Recognised during the year	**(663)**	(209)
Exchange realignment	**520**	–
Carrying amount at 31 December	**31,512**	31,655
Current portion included in prepayments, deposits and other receivables	**(663)**	(663)
Non-current portion	**30,849**	30,992

An analysis of the Group's leasehold land is as follows:

	2005	2004
	HK$'000	HK$'000
		(Restated)
Medium term leases:		
Hong Kong	**8,764**	8,973
Mainland China	**22,748**	22,682
	31,512	31,655

Notes to Financial Statements

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16. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries and a jointly controlled entity, are as follows:

Group

	Goodwill arising from acquisition of interest in a subsidiary HK$'000	**Negative goodwill arising from acquisition of a subsidiary** HK$'000	**Negative goodwill arising from acquisition of a jointly controlled entity** HK$'000 *(Note 19)*
31 December 2005			
At 1 January 2005:			
Cost as previously reported	787	(1,488)	(507)
Effect of adopting HKFRS 3	(303)	1,488	507
Cost as restated	484	–	–
Accumulated amortisation as previously reported	(303)	922	304
Effect of adopting HKFRS 3	303	(922)	(304)
Accumulated amortisation as restated	–	–	–
Net carrying amount	484	–	–
Cost at 1 January 2005	484	–	–
Impairment during the year	(484)	–	–
Cost and carrying amount at 31 December 2005	–	–	–
At 31 December 2005:			
Cost	484	–	–
Accumulated impairment	(484)	–	–
Net carrying amount	–	–	–

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16. GOODWILL AND NEGATIVE GOODWILL *(continued)*

Group

	Goodwill arising from acquisition of interest in a subsidiary HK$'000	Negative goodwill arising from acquisition of a subsidiary HK$'000	Negative goodwill arising from acquisition of a jointly controlled entity HK$'000 *(Note 19)*
31 December 2004			
At 1 January 2004:			
Cost	606	(1,488)	(507)
Accumulated amortisation	(182)	646	203
Net carrying amount	424	(842)	(304)
Cost at 1 January 2004, net of accumulated amortisation	424	(842)	(304)
Additions	181	–	–
Amortisation recognised as income/(provided) during the year	(121)	276	101
At 31 December 2004	484	(566)	(203)
At 31 December 2004:			
Cost	787	(1,488)	(507)
Accumulated amortisation	(303)	922	304
Net carrying amount	484	(566)	(203)

The amount of negative goodwill remaining in the consolidated capital reserve, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, was HK$417,000 as at 31 December 2004. Upon the adoption of HKFRS 3 on 1 January 2005, such negative goodwill of HK$417,000 was derecognised with a corresponding adjustment to the opening balance of retained profits.

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17. OTHER INTANGIBLE ASSETS

Group

	Technology know-how HK$'000
31 December 2005	
Cost at 1 January 2005, net of accumulated amortisation	447
Amortisation provided during the year	(187)
Exchange realignment	10
At 31 December 2005	270
At 31 December 2005:	
Cost	1,319
Accumulated amortisation	(1,049)
Net carrying amount	270
31 December 2004	
At 1 January 2004:	
Cost	1,319
Accumulated amortisation	(546)
Net carrying amount	773
Cost at 1 January 2004, net of accumulated amortisation	773
Amortisation provided during the year	(326)
At 31 December 2004	447
At 31 December 2004:	
Cost	1,319
Accumulated amortisation	(872)
Net carrying amount	447

Notes to Financial Statements

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18. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**63,823**	63,823
Due from subsidiaries	**363,324**	240,349
Due to a subsidiary	**(5,687)**	(5,687)
	421,460	298,485

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances with subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Man Yue Holdings (BVI) Limited	British Virgin Islands/Hong Kong	Ordinary US$10,000	**100**	100	Investment holding
Johnstone International Limited	British Virgin Islands/Hong Kong	Ordinary US$1	**100***	100*	Investment holding
Man Yue Electronics Company Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$3,000,000	**100***	100*	Trading of electrical products and electronic components
Man Yue Technology Limited	British Virgin Islands/Hong Kong	Ordinary US$10	**100***	100*	Investment holding
Samxon Electronics (Dongguan) Co., Ltd.#	People's Republic of China	Registered US$35,153,900	**100***	100*	Manufacture and sale of electronic components
Searange Investment Limited	Hong Kong	Ordinary HK$2	**100***	100*	Investment holding
TradeUNIT Limited	British Virgin Islands/Hong Kong	Ordinary HK$9,500,000	**100***	100*	Trading of raw materials

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18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Wuxi Heli Electronic Co., Limited#	People's Republic of China	Registered US$3,000,000	**100***	100*	Manufacture and sale of electronic components
Man Yue Electronics (Xiamen) Company Limited#	People's Republic of China	Registered US$1,500,000	**100***	100*	Manufacture and sale of electronic components
Samxon Electronic Components LLC	USA	Contributed US$1,000	**100***	100*	Provision of marketing-related services
Man Fat International Trading (Shanghai) Co., Limited#	People's Republic of China	Registered US$200,000	**100***	100*	Trading of electrical products and electronic components
Dongguan Ostor-Samxon Electronics Co. Limited#	People's Republic of China	Registered US$4,247,000	**100***	100*	Manufacture and sale of electronic components
MMS Logistics Company Limited	Hong Kong	Ordinary HK$10,000	**100***	100*	Trading of electrical products and electronic components
MMS Electronics Company Limited	Hong Kong	Ordinary HK$1	**100***	100*	Trading of capacitor
Long Trade (Macao Commercial Offshore) Limited	Macau	Registered MOP100,000	**100***	–	Trading of raw materials
Wuxi Man Yue Electronics Company Limited#	People's Republic of China	Registered US$20,000,000	**100***	–	Manufacture and sale of electronic components
Rifeng Qingyuan Electronic Company Limited#	People's Republic of China	Registered HK$20,000,000	**100***	–	Manufacture and sale of electronic components

* Held indirectly through subsidiaries.

The subsidiaries are registered as wholly foreign-owned enterprises under the PRC law.

The above table lists the subsidiaries of the Company 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 subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net assets	**4,011**	3,483
Negative goodwill on acquisition (note 16)	**–**	(203)
	4,011	3,280
Due from jointly controlled entities	**23,464**	30
Due to jointly controlled entities	**(3,018)**	–
	24,457	3,310

The amounts due from/to jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances with jointly controlled entities approximate to their fair values.

Particulars of the principal jointly controlled entities, all of which are held indirectly through subsidiaries, are as follows:

Name	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Guizhou Xin Yu Electronics Co., Ltd.	People's Republic of China	49	33	49	Manufacture and sale of electronic components
Ever Reliance Industrial Investments Limited	Hong Kong	48	50	48	Investment holding
Foshan Rifeng Electronic Co., Ltd.	People's Republic of China	33	33	33	Manufacture and sale of electronic components
Nan Tong Xin Cheng Electronics Co., Ltd.	People's Republic of China	49	33	49	Manufacture and sale of electronic components

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

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19. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

The following table illustrates the summarised financial information of the Group's jointly controlled entities:

	Group	
	2005 **HK$'000**	2004 HK$'000
Share of the jointly controlled entities' assets and liabilities:		
Non-current assets	**21,598**	3,420
Current assets	**5,596**	5,534
Current liabilities	**(23,183)**	(5,471)
Net assets	**4,011**	3,483
Share of the jointly controlled entities' results:		
Turnover	**12,684**	10,294
Other revenue	**339**	9
Total revenue	**13,023**	10,303
Total expenses	**(11,798)**	(14,540)
Profit for the year	**1,225**	(4,237)

Pursuant to a shareholders agreement dated 24 January 2005, the shareholders of Ever Reliance Industrial Investments Limited ("Ever Reliance"), namely Man Yue Technology Limited (a wholly owned subsidiary of the Company), Golden Faith Mfg. Limited and Wintop Intertrade Limited, are committed to contribute non-interest bearing shareholders' loans of HK$28,800,000, HK$29,400,000 and HK$1,800,000 respectively to Ever Reliance in accordance with their shareholding percentage. As at 31 December 2005, the Group has contributed HK$23,328,000 to Ever Reliance as shareholders' loans. The Group is committed to contribute the remaining balance of HK$5,472,000 to Ever Reliance as shareholders loans when requested by Ever Reliance on or before 14 July 2007.

20. INVENTORIES

	Group	
	2005 **HK$'000**	2004 HK$'000
Raw materials	**104,851**	59,533
Work in progress	**21,978**	10,790
Finished goods	**95,433**	87,151
	222,262	157,474

Notes to Financial Statements

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21. TRADE RECEIVABLES

An aged analysis of trade receivables at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	2005		2004	
	HK$'000	**%**	HK$'000	%
Less than 3 months	**207,913**	**89**	154,183	80
4 – 6 months	**23,585**	**10**	34,283	18
7 – 12 months	**3,196**	**1**	4,448	2
Over 1 year	**218**	**–**	731	–
	234,912	**100**	193,645	100

22. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
Available-for-sale equity investments, at fair value:		
Non-Hong Kong listed equity investments	**13,806**	–
Long term investments:		
Non-Hong Kong listed equity investments, at cost	**–**	12,382
Unlisted equity investments, at cost	**–**	1,000
Less: Provision for impairment	**–**	(1,000)
	–	–
	–	12,382

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices.

During the year, the gross loss of the Group's available-for-sale equity investments recognised directly in equity amounted to HK$943,000 (2004: Nil), and HK$96,000 (2004: Nil) was removed from equity and recognised in the income statement for the year.

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23. SHORT TERM INVESTMENTS

	Group	
	2005 **HK$'000**	2004 HK$'000
Hong Kong listed equity investments, at market value	**116**	190

The above equity investments at 31 December 2005 were classified as held for trading.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000
Cash and bank balances	**47,520**	39,134	**180**	44
Time deposits	**34,875**	11,827	**–**	–
	82,395	50,961	**180**	44

25. TRADE PAYABLES

An aged analysis of the trade payables at the balance sheet date, based on the invoice date, is as follows:

	2005		2004	
	HK$'000	**%**	HK$'000	%
Accounts payable:				
Less than 3 months	**95,824**	**87**	76,539	83
4 – 6 months	**12,630**	**12**	8,296	9
7 – 12 months	**460**	**–**	164	–
Over 1 year	**1,480**	**1**	7,618	8
	110,394	**100**	92,617	100
Bills payable	**65,928**		40,911	
	176,322		133,528	

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26. INTEREST-BEARING BANK LOANS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current				
Term loans – unsecured	**88,733**	68,998	**57,273**	57,000
Term loans – secured	**–**	3,195	**–**	–
Trust receipt loans – unsecured	**–**	67,301	**–**	–
Other bank loans – unsecured	**–**	6,167	**–**	–
	88,733	145,661	**57,273**	57,000
Non-current				
Term loans – unsecured	**221,267**	75,000	**152,727**	57,000
	310,000	220,661	**210,000**	114,000
Analysed into:				
Within one year or on demand	**88,733**	145,661	**57,273**	57,000
In the second year	**110,683**	65,000	**76,363**	57,000
In the third to fifth years, inclusive	**110,584**	10,000	**76,364**	–
	310,000	220,661	**210,000**	114,000

All the bank loans of the Group and the Company are denominated in Hong Kong dollars and bear floating interests at a weighted average interest rate of 5.13% per annum. They are repayable by instalments up to 2008. The carrying amounts of the Group's and the Company's bank loans approximate to their fair values.

At 31 December 2004, certain of the Group's bank borrowings were secured by fixed charges over certain of the Group's machinery and equipment in the PRC with an aggregate net book value of approximately HK$10,566,000.

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27. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles and machinery and equipment for its electronic components business. These leases are classified as finance leases and have remaining lease terms ranging from one to four years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Amounts payable:				
Within one year	**2,389**	7,501	**2,278**	7,286
In the second year	**422**	1,936	**389**	1,902
In the third to fifth years, inclusive	**346**	–	**333**	–
Total minimum finance lease payments	**3,157**	9,437	**3,000**	9,188
Future finance charges	**(157)**	(249)		
Total net finance lease payables	**3,000**	9,188		
Portion classified as current liabilities	**(2,278)**	(7,286)		
Non-current portion	**722**	1,902		

Finance lease payables are denominated in Hong Kong dollars and bear interests at a weighted average interest rate of 5.12% per annum. They are repayable by instalments up to 2009.

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28. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2005	
	Assets	**Liabilities**
	HK$'000	**HK$'000**
Forward currency contracts	**899**	**1,667**
Interest rate swaps	**655**	**–**
	1,554	**1,667**

The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Forward currency contracts – cash flow hedges

At 31 December 2005, the Group held forward currency contracts designated as hedges in respect of expected future purchases in Japanese Yen. The total notional amount of outstanding forward currency contracts to which the Group is committed amounted to JPY1,025,067,000. The contracts will mature at various dates between one month to six months from the balance sheet date.

The terms of the forward currency contracts have been negotiated to match the terms of the forecast transactions. The cash flow hedges of the expected future purchases were assessed to be highly effective and a net loss of HK$768,000 was included in the hedging reserve as follows:

	2005
	HK$'000
Total fair value losses included in the hedging reserve	**(4,420)**
Transfers from the hedging reserve and included in cost of inventories	**3,652**
Net losses on cash flow hedges included in equity	**(768)**

In addition, the Group has entered into various interest rate swaps to manage its interest rate risks which did not meet the criteria for hedge accounting. Fair value gains on non-hedging interest rate swaps amounting to HK$655,000 were recognised in the income statement during the year.

29. PROVISION FOR LONG SERVICE PAYMENTS

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year	**2,509**	2,984	**–**	–
Provision for the year	**567**	–	**567**	–
Reversal of unutilised amounts	**–**	(475)	**–**	–
31 December 2005	**3,076**	2,509	**567**	–

The Group and the Company 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 2.5 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 and the Company to the balance sheet date.

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30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year were as follows:

Deferred tax assets

Group

	Deductible tax depreciation HK$'000	**Provisions** HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 January 2004	218	2,659	3	2,880
Deferred tax credited/(charged) to the income statement during the year (note 10)	(58)	361	1,709	2,012
At 31 December 2004 and 1 January 2005	160	3,020	1,712	4,892
Deferred tax credited/(charged) to the income statement during the year (note 10)	(160)	–	(355)	(515)
Gross deferred tax assets at 31 December 2005	**–**	**3,020**	**1,357**	**4,377**

Deferred tax liabilities

Group

	Revaluation of properties HK$'000 (Restated)	**Accelerated tax depreciation** HK$'000	**Total** HK$'000 (Restated)
At 1 January 2004	–	216	216
Deferred tax charged to the income statement during the year (note 10)	–	408	408
At 31 December 2004 and 1 January 2005	–	624	624
Deferred tax charged to the income statement during the year (note 10)	–	196	196
Deferred tax debited to equity during the year	1,885	–	1,885
Gross deferred tax liabilities at 31 December 2005	**1,885**	**820**	**2,705**

At 31 December 2005, the Group had tax losses arising in Hong Kong of HK$6,743,000 (2004: HK$5,164,000) 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 the utilisation of which is uncertain.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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31. DEFERRED INCOME

The deferred income related to a non-cash subsidy granted by Jiangsu Province Xishan Economic Development Management Committee in 2004 in the form of a reduction of the consideration for the acquisition of a parcel of land in Wuxi, the PRC, paid by the Group. The deferred income amount represented the fair value of the land at the date of acquisition less the total consideration paid by the Group. The purpose of the subsidy is for industrial development in that area.

32. SHARE CAPITAL

Ordinary Shares

	2005 HK$'000	2004 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
413,983,160 (2004: 372,855,666) ordinary shares of HK$0.10 each	**41,398**	37,286

A summary of the transactions involving the Company's share capital is as follows:

	Number of shares in issue	**Issued capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2004	373,440,000	37,344	72,641	109,985
Shares repurchased	(16,286,000)	(1,628)	(4,560)	(6,188)
Share options exercised	15,700,000	1,570	4,925	6,495
Warrants exercised	1,666	–	–	–
At 31 December 2004 and 1 January 2005	372,855,666	37,286	73,006	110,292
Share options exercised	1,800,000	180	846	1,026
Warrants exercised	39,327,494	3,932	14,945	18,877
At 31 December 2005	**413,983,160**	**41,398**	**88,797**	**130,195**

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32. SHARE CAPITAL *(continued)*

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

Warrants

On 23 September 2004, the Company proposed a conditional bonus warrant issue to the shareholders of the Company on the register of members on 26 October 2004. The bonus warrant issue was made in the proportion of one warrant for every six ordinary shares of the Company, resulting in 62,142,333 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$0.48 per share, subject to amendment, from 4 November 2004 to 3 November 2006 (both days inclusive). The warrants were issued to the shareholders of the Company on 2 November 2004.

During the year, 39,327,494 (2004: 1,666) warrants were exercised for 39,327,494 (2004: 1,666) shares of HK$0.10 each at a price of HK$0.48 per share. At 31 December 2005, the Company had 22,813,173 (2004: 62,140,667) warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 22,813,173 (2004: 62,140,667) additional shares of HK$0.10 each.

33. SHARE OPTION SCHEME

On 13 February 1997, the Company adopted a share option scheme (the "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 Scheme include any executive director or employee (excluding independent non-executive directors) of the Group. The Scheme is effective from 13 February 1997 to 12 February 2007.

The subscription price is determined by the directors and is the higher of a price not less than 80% of the average closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of grant of the options or the nominal value of the shares.

The maximum number of shares on which options may be granted under the Scheme may not exceed 10% of the ordinary share capital of the Company in issue from time to time. The offer of a grant of share options may be accepted within 40 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

Subsequent to the adoption of the Scheme, the Stock Exchange has introduced a number of amendments to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. Options granted by the Company under the Scheme after 1 September 2001 are subject to the new rules which include, inter alia, the following:

(a) the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting;

(b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors; and

(c) the exercise price of share options is determined by the directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of the grant.

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

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33. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Scheme during the year:

	Number of share options						Price of Company's shares**	
Name or category of participant	At 1 January 2005	Exercised during the year	At 31 December 2005	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK$	Immediately before the exercise date HK$	At exercise date of options HK$
Directors								
Chan Ho Sing	11,000,000	–	11,000,000	30.12.1997	30.12.1997 to 12.2.2007	0.7856	–	–
Ko Pak On	1,500,000	–	1,500,000	30.12.1997	30.12.1997 to 12.2.2007	0.7856	–	–
	300,000	(300,000)	–	5.6.2000	5.6.2000 to 12.2.2007	0.432	1.985	1.96
	1,800,000	(300,000)	1,500,000					
Other employees								
In aggregate	1,000,000	(700,000)	300,000	30.12.1997	30.12.1997 to 12.2.2007	0.7856	2.571	2.571
In aggregate	800,000	(800,000)	–	5.6.2000	5.6.2000 to 12.2.2007	0.432	1.966	1.926
In aggregate	1,800,000	(1,500,000)	300,000					
	14,600,000	(1,800,000)	12,800,000					

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33. SHARE OPTION SCHEME *(continued)*

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

** The price of the Company's shares disclosed immediately before the exercise date and as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates and as at the dates on which the options were exercised over all of the exercises of options within the disclosure line, respectively.

At 31 December 2005, the exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,800,000 additional ordinary shares of the Company and additional share capital of HK$1,280,000 and share premium of approximately HK$8,776,000 (before issue expenses).

34. RESERVES

Group

	Share premium account	Contributed surplus*	Capital reserve@	Asset revaluation reserve	Hedging reserve	Available-for-sale investment revaluation reserve	Exchange fluctuation reserve	PRC reserve funds#	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004										
As previously reported	72,641	2,800	417	1,880	–	–	(221)	2,432	142,326	222,275
Prior year adjustment	–	–	–	–	–	–	–	–	2,804	2,804
As restated	72,641	2,800	417	1,880	–	–	(221)	2,432	145,130	225,079
Asset revaluation surplus (as restated)	–	–	–	44	–	–	–	–	–	44
Exchange realignment	–	–	–	–	–	–	468	–	–	468
Total income and expense for the year recognised directly in equity	–	–	–	44	–	–	468	–	–	512
Net profit for the year (as restated)	–	–	–	–	–	–	–	–	61,867	61,867
Total income and expense for the year	–	–	–	44	–	–	468	–	61,867	62,379
Shares repurchased	(4,560)	–	–	–	–	–	–	–	–	(4,560)
Share options exercised	4,925	–	–	–	–	–	–	–	–	4,925
Transferred from retained profits	–	–	–	–	–	–	–	5,607	(5,607)	–
Proposed final dividend	–	–	–	–	–	–	–	–	(7,457)	(7,457)
At 31 December 2004	73,006	2,800	417	1,924	–	–	247	8,039	193,933	280,366

Notes to Financial Statements

31 December 2005

34. RESERVES *(continued)*

Group

	Share premium account	Contributed surplus*	Capital reserve	Asset revaluation reserve	Hedging reserve	Available-for-sale investment revaluation reserve	Exchange fluctuation reserve	PRC reserve funds#	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005										
As previously reported	73,006	2,800	417	5,062	–	–	247	8,039	191,211	280,782
Prior year adjustments	–	–	–	(3,138)	–	–	–	–	2,722	(416)
Restated before opening balance adjustments	73,006	2,800	417	1,924	–	–	247	8,039	193,933	280,366
Opening balance adjustments	–	–	(417)	–	–	2,854	–	–	1,186	3,623
As restated	73,006	2,800	–	1,924	–	2,854	247	8,039	195,119	283,989
Disposal of available-for-sale equity investments	–	–	–	–	–	(96)	–	–	–	(96)
Changes in fair value of available-for-sale equity investments	–	–	–	–	–	(943)	–	–	–	(943)
Net losses on cash flow hedges	–	–	–	–	(768)	–	–	–	–	(768)
Asset revaluation surplus	–	–	–	6,353	–	–	–	–	–	6,353
Deferred tax debited to equity	–	–	–	(1,885)	–	–	–	–	–	(1,885)
Exchange realignment	–	–	–	–	–	–	11,039	–	–	11,039
Total income and expense recognised directly in equity	–	–	–	4,468	(768)	(1,039)	11,039	–	–	13,700
Net profit for the year	–	–	–	–	–	–	–	–	95,696	95,696
Total income and expense for the year	–	–	–	4,468	(768)	(1,039)	11,039	–	95,696	109,396
Share options exercised	846	–	–	–	–	–	–	–	–	846
Warrants exercised	14,945	–	–	–	–	–	–	–	–	14,945
Interim 2005 dividend	–	–	–	–	–	–	–	–	(6,133)	(6,133)
Transferred from retained profits	–	–	–	–	–	–	–	7,359	(7,359)	–
Proposed final dividend	–	–	–	–	–	–	–	–	(8,305)	(8,305)
At 31 December 2005	**88,797**	**2,800**	**–**	**6,392**	**(768)**	**1,815**	**11,286**	**15,398**	**269,018**	**394,738**

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34. RESERVES *(continued)*

* The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

@ Capital reserve included negative goodwill arising on the acquisition of a subsidiary prior to 1 January 2001, as further explained in note 16 to the financial statements.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries in Mainland China has been transferred to reserve funds which are restricted as to use.

Company

	Share premium account HK$'000	**Contributed surplus** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2004	72,641	63,623	10,006	146,270
Shares repurchased	(4,560)	–	–	(4,560)
Share options exercised	4,925	–	–	4,925
Loss for the year	–	–	(1,880)	(1,880)
Proposed final dividend	–	–	(7,457)	(7,457)
At 31 December 2004 and 1 January 2005	73,006	63,623	669	137,298
Share options exercised	846	–	–	846
Warrants exercised	14,945	–	–	14,945
Profit for the year	–	–	18,450	18,450
Interim 2005 dividend	–	–	(6,133)	(6,133)
Proposed final dividend	–	–	(8,305)	(8,305)
	88,797	63,623	4,681	157,101

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

35. CONTINGENT LIABILITIES

The Company had guarantees amounting to HK$687,900,000 (2004: HK$483,857,000) in respect of banking facilities and finance lease contracts granted to its subsidiaries, and approximately HK$178,111,000 (2004: HK$156,574,000) of which was utilised at the balance sheet date.

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36. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and warehouses under operating lease arrangements. Leases for office properties and warehouses are negotiated for terms ranging from one to five years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**11,185**	10,725
In the second to fifth years, inclusive	**21,148**	23,875
After five years	**–**	1,430
	32,333	36,030

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted, but not provided for:		
Plant and machinery	**9,696**	7,025
Construction in progress	**9,296**	11,343
	18,992	18,368

At the balance sheet date, the Company did not have any significant commitments (2004: Nil).

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38. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following material transactions with its jointly controlled entities:

	2005 HK$'000	2004 HK$'000
Purchases of raw materials	**14,706**	15,013
Sale of raw materials	**9,956**	4,022

The above purchases of raw materials were carried out according to terms similar to those offered by other suppliers, except that a longer credit period was granted. The above sales transactions were carried out in accordance with the Group's pricing policy, and were calculated on a cost-plus basis.

(b) Compensation of key management personnel (excluding directors) of the Group:

	2005 HK$'000	2004 HK$'000
Short term employee benefits	**4,456**	3,852
Pension scheme contributions	**36**	36
Total compensation paid to key management personnel	**4,492**	3,888

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are foreign currency risk, cash flow interest rate risk, and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

Foreign currency risk

The Group's reporting currency is Hong Kong Dollars and conducts some of its business transactions in other transactional currencies such as United States Dollars, Japanese Yen and Renminbi. Some of its sales proceeds were received in United States Dollars and Renminbi. From the purchasing side, some of the purchases are conducted in Japanese Yen, Renminbi and United States Dollars. As United States Dollars are closely pegged with Hong Kong Dollars throughout the year under review, so the currency exposure in this respect is considered not significant. About 21.6% (2004: 25.4%) of the Group's purchases are denominated in Japanese Yen. Accordingly, the Group uses forward currency contracts to mitigate a proportion of its Japanese Yen exposures with reference to the cash flow forecasts. It is the Group's policy that forward currency contracts were only entered for cash flow hedging purposes. The Group does not speculate on foreign currencies.

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

Foreign currency risk *(continued)*

At 31 December 2005, the Group had hedged 93% (2004: Nil) of its foreign currency purchases for which firm commitments existed at the balance sheet date, extending to June 2006.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates. To manage any exposure arising from the changes in market interest rates, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2005, after taking into account the effect of the interest rate swaps, approximately 14% (2004: 39%) of the Group's interest-bearing borrowings bore interest at fixed rates.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group has entered into credit insurance contracts with the Hong Kong Export Credit Insurance Corporations and other financial institutions to mitigate the credit risk arising from the receivable balances. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts and concentration of credit risks are not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

40. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, on 14 January 2006, Man Yue Electronics Company Limited ("MYE"), a wholly-owned subsidiary of the Company, entered into agreements for sale and purchase with independent third parties for the acquisition of two commercial properties located at 25th Floor and 26th Floor, King Kong Commercial Centre, 9 Des Voeux Road West, Hong Kong. The total consideration for purchases was HK$43,871,000, of which HK$23,806,000 was already paid and the remaining balance of HK$20,065,000 will be payable by on or before 28 April 2006. The total purchase price of the properties will be financed by internal resources of the Group. The Group intends to acquire these properties for its own use to cope with its expanding business in future.

41 COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2006.