Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company as at 31 December 2005 is Global Innovation Investment Limited ("GIIL"), a company incorporated in Cayman Islands. The Company's ultimate holding company is S.T.J. Technology Limited ("STJ"), a company incorporated in British Virgin Islands. The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the annual report.

The consolidated financial statements are presented in United States dollar while the functional currency is Renminbi. The reason for selecting United States dollar as its presentation currency because the Company is a public company incorporated in Hong Kong with the shares listed in the Stock Exchange.

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are the manufacturing and sale of wooden products and provision of integrated circuit ("IC") design services.

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

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented.

Share-based payments

In the current year, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to the directors, employees and other participants under the Company's Share Option Scheme (the "Scheme"), determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised.

The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to shares options granted before 1 January 2005, the Group has not applied HKFRS 2 with respect to shares granted on or before 7 November 2002 and vested before 1 January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share option that were granted after 7 November 2002 and had not vested on 1 January 2005.

The adoption of HKFRS 2 had no significant impact on the results and financial position of the prior accounting years. No prior period adjustments are made. A share option benefits expense amounting to US$42,000 is charged to net loss in current year (see note 3 for the financial impact).

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

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

Financial Instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting years. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its investment in equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 Accounting for Investments in Securities ("SSAP 24"). Under SSAP 24, investments in equity securities were classified as "investment securities". "Investment securities", which were held for an identified long-term strategic purpose, were measured at subsequent reporting dates at cost, as reduced by the impairment loss that was other than temporary. From 1 January 2005, the investment in securities of a carrying value of US$441,000 was classified as investment in an investee company under the available-for-sale financial assets, which was carried at cost less impairment as there was no quoted market price in an active market and the fair value could not be reliably measured (see note 3 for the financial impact).

From 1 January 2005, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. On 1 January 2005, the club debenture of US$37,000 was classified as loans and receivables and was carried at amortised cost using the effective interest method, less any identified impairment losses. There is no material impact on the presentation and result of the Group for current and prior years.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

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

The changes in the accounting policies described in note 2 have no effect on the losses for the current and the prior year, except for the recognition of the expense in relation to share options granted to employees amounting to US$42,000 in current year.

The following is an analysis of the effect on the losses for the year by line items presented according to their function:

	2005 **US$'000**	2004 US$'000
Increase in administrative expenses	**(42)**	–
Decrease in share of results of associates	**–**	(109)
Increase in tax credit	**–**	109
Increase in loss for the year	**(42)**	–

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	31.12.2004 US$'000 (originally stated)	**Adjustments** US$'000	**31.12.2004** US$'000 (restated)	**Adjustments** US$'000	**1.1.2005** US$'000 (restated)
Balance sheet items					
Property, plant and equipment	19,385	(1,160)	18,225	–	18,225
Prepaid lease payments – non-current	–	1,051	1,051	–	1,051
Investments in investee companies	–	–	–	441	441
Investments in securities	441	–	441	(441)	–
Prepaid lease payments – current	–	109	109	–	109
Total effects on assets and liabilities		–		–	
Total effects on equity					
Minority interests	–	9,969	9,969	–	9,969
Minority interests	9,969	(9,969)	–	–	–

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(cont'd)*

The cumulative effects of the application of the new HKFRSs as at 1 January 2004 are summarised below:

	1.1.2004 US$'000 (originally stated)	**Adjustments** US$'000	**1.1.2004** US$'000 (restated)
Total effects on equity			
Minority interests	–	10,604	10,604
Minority interests	10,604	(10,604)	–

The Group has not early applied the new standards, interpretations and amendments that have been issued but are not yet effective as at 31 December 2005. The Group has commenced considering the potential impact of these standards, interpretations and amendments. The management anticipates the application of these new standards, interpretations and amendments will have no material impact on the Group's financial statements.

HKAS 1 (Amendment)	Capital disclosure [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [3]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments, which are measured at fair values at initial recognition. The accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Interests in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Property, plant and equipment

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

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

Construction in progress represents assets in the course of construction for production, rental or administrative purposes. They are carried at cost, less any identified impairment loss. Cost includes all construction expenditure and other direct costs, including borrowing costs, attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment losses

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

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

Financial assets

The Group's financial assets are mainly classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies are set out below.

Loans and receivables

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

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Financial instruments *(cont'd)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, held-to-maturity investments and loans and receivables. The investments in investee companies of the Group are accounted for as available-for-sale financial assets.

The investment in the investee companies, which do not have a quoted market price in an active market and whose fair value cannot be reliably measured, it is measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank demand deposits which are subject to an insignificant risk of changes in value.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to ultimate holding company and associates, bank and other borrowings) are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Share-based payment transactions

Share options granted to directors and employees of the Company

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

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Foreign currencies *(cont'd)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. United States dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits

Payments to Mandatory Provident Fund ("MPF") scheme are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management had made the following judgments and estimations that have the most significant effect on the amounts recognised in the financial statements.

Inventories

Note 4 describes that inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less all further costs of production and the related cost of marketing, selling and distribution.

The Group has the operational procedures put in place to monitor the risk of inventories as a substantial amount of working capital is devoted to inventories. The management reviews the inventory ageing listing on a periodic basis to identify aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. Management exercises their judgement in making allowance for inventories. In addition, physical count on all inventories are carried out on a periodic basis in order to determine whether allowance needs to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that adequate allowance for obsolete and slow-moving inventories has been made in the financial statements.

Trade receivables

Note 4 describes that trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In making the judgment, management considered detailed procedures have been put in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that adequate allowance for doubtful debts has been made in the financial statements in light of the historical records of the Group and the circumstances of the wooden products manufacturing industry as a whole.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(cont'd)*

Property, plant and equipment

Note 4 describes that property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss. The impairment loss is recognised to profit and loss when there is objective evidence that the asset is impaired.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgment in the area of asset impairment, particularly in assessing (i) whether an event has occurred that may affect asset value; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

Deferred tax assets

As at 31 December 2005, a deferred tax asset of US$943,000 (2004: US$1,971,000) in relation to tax losses, allowance for bad and doubtful debts, allowance for slow moving inventories, impairment loss in respect of plant and equipment, and accelerated accounting depreciation, have been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and certain trade receivables and borrowings (see note 26) of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(ii) Interest risk

The Group's earnings are affected by changes in interest rates due to impact of such changes on interest income and expense on time deposits and interest-bearing bank loans respectively, which are all denominated in Renminbi. Except for the interest-bearing bank loans part of which is repayable over one year, all of the said interest-bearing financial assets and liabilities are short-term in nature. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant bank and other borrowings, should the need arises.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(cont'd)*

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

Individual operating entities within the group are responsible for their own cash management, including raising of loans to cover expected cash demands, subject to approval by the board of directors of the Company when the borrowings exceed certain predetermined levels of authority. The group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

7. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold and services provided.

(a) Business segments

For management purposes, the Group is currently organised into four principal operating divisions, the principal activities of which are disclosed as follows and these divisions form the basis on which the Group reports its primary segment information.

Principal activities:

Blockboard and particle board	– manufacture and trading of products of blockboard and particle board
Door skin	– manufacture and trading of door skin
Other wooden products	– manufacture and trading of wooden products other than those identified as above
Others	– high-technology related business

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

7. TURNOVER AND SEGMENT INFORMATION *(cont'd)*

(a) Business segments *(cont'd)*

(i) Segment information about these businesses is presented below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Blockboard and particle board US$'000	**Door skin** US$'000	**Other wooden products** US$'000	**Others** US$'000	**Consolidated** US$'000
TURNOVER					
External sales	11,128	8,084	3,273	–	22,485
RESULT					
Segment result	(28)	(342)	(1,218)	–	(1,588)
Unallocated corporate expenses					(922)
Finance costs					(746)
Share of results of associates	–	–	(91)	(1,710)	(1,801)
Loss before taxation					(5,057)
Taxation					(1,040)
Loss for the year					(6,097)

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Blockboard and particle board US$'000	**Door skin** US$'000	**Other wooden products** US$'000	**Others** US$'000	**Consolidated** US$'000
ASSETS					
Segment assets	15,559	16,379	3,288	–	35,226
Interests in associates	–	–	1,259	1,749	3,008
Unallocated corporate assets					3,244
Consolidated total assets					41,478
LIABILITIES					
Segment liabilities	6,504	5,914	2,639	–	15,057
Unallocated corporate liabilities					3,318
Consolidated total liabilities					18,375

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

7. TURNOVER AND SEGMENT INFORMATION *(cont'd)*

(a) Business segments *(cont'd)*

(i) Segment information about these businesses is presented below: *(cont'd)*

OTHER INFORMATION

For the year ended 31 December 2005

	Blockboard and particle board US$'000	**Door skin** US$'000	**Other wooden products** US$'000	**Others** US$'000	**Consolidated** US$'000
Additions of property, plant and equipment	468	521	309	–	1,298
Amortisation of prepaid lease payments	(69)	(31)	(2)	–	(102)
Depreciation of property, plant and equipment	(1,096)	(1,717)	(147)	(53)	(3,013)
Loss on disposal of property, plant and equipment	(2)	(6)	(9)	–	(17)
Reversal (allowance) for bad and doubtful debts	46	(117)	(271)	–	(342)

(ii) Segment information about these businesses is presented below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	Blockboard and particle board US$'000	**Door skin** US$'000	**Other wooden products** US$'000	**Others** US$'000	**Consolidated** US$'000
TURNOVER					
External sales	19,801	1,657	3,074	–	24,532
RESULT					
Segment result	(256)	(41)	(1,204)	–	(1,501)
Unallocated corporate expenses					(2,608)
Finance costs					(794)
Share of results of associates	–	–	224	(1,509)	(1,285)
Gain on deemed disposal of associates	–	–	–	1,627	1,627
Loss before taxation					(4,561)
Taxation					1,030
Loss for the year					(3,531)

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

7. TURNOVER AND SEGMENT INFORMATION *(cont'd)*

(a) Business segments *(cont'd)*

(ii) Segment information about these businesses is presented below: *(cont'd)*

CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Blockboard and particle board US$'000	Door skin US$'000	Other wooden products US$'000	Others US$'000	Consolidated US$'000
ASSETS					
Segment assets	31,202	3,351	2,213	–	36,766
Interests in associates	–	–	1,404	3,455	4,859
Unallocated corporate assets					4,193
Consolidated total assets					45,818
LIABILITIES					
Segment liabilities	1,755	146	1,111	–	3,012
Unallocated corporate liabilities					12,746
Consolidated total liabilities					15,758

OTHER INFORMATION

For the year ended 31 December 2004

	Blockboard and particle board US$'000	Door skin US$'000	Other wooden products US$'000	Others US$'000	Consolidated US$'000
Additions of property, plant and equipment	515	58	19	2	594
Allowance for bad and doubtful debts	(960)	(99)	(30)	–	(1,089)
Amortisation of prepaid lease payments	(101)	(6)	(2)	–	(109)
Depreciation of property, plant and equipment	(2,604)	(342)	(364)	(98)	(3,408)
Impairment loss recognised in respect of property, plant and equipment	–	–	(449)	–	(449)
Impairment loss on investment in securities	–	–	–	(1,974)	(1,974)
Loss on disposal of property, plant and equipment	(2)	–	(351)	(74)	(427)

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

7. TURNOVER AND SEGMENT INFORMATION *(cont'd)*

(b) Geographical segments

The Group's operations are located in Hong Kong and other regions in the People's Republic of China (the "PRC"). Manufacture of the wooden products is carried out in the PRC.

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

	Sales revenue by geographical market	
	Year ended 31.12.2005 US$'000	Year ended 31.12.2004 US$'000
The PRC (including Hong Kong)	**14,825**	23,690
Europe	**5,165**	–
Others	**2,495**	842
	22,485	24,532

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

	Carrying amount of consolidated segment assets		**Capital additions**	
	Year ended 31.12.2005 US$'000	Year ended 31.12.2004 US$'000	**Year ended 31.12.2005 US$'000**	Year ended 31.12.2004 US$'000
The PRC (including Hong Kong)	**39,629**	42,294	**1,298**	592
Taiwan	**1,749**	3,437	**–**	–
Others	**–**	18	**–**	2
	41,378	45,749	**1,298**	594

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

8. OTHER INCOME

Other income comprises:

	2005 **US$'000**	2004 US$'000
Interest income	**9**	26
Value added tax refund (note)	**1,014**	2,729
Gain on disposal of investments in an investee company	**283**	–
Gain on disposal of associates	**4**	–
Others	**100**	194
	1,410	2,949

Note:

Certain subsidiaries of the Company established in the PRC are involved in the production of wooden products which require the use of raw materials that are environmental friendly. Pursuant to the relevant rules and regulations of the PRC governing the value added tax ("VAT") treatment of such subsidiaries, such subsidiaries were entitled to VAT refund totalling US$1,014,000 (2004: US$2,729,000) for the year ended 31 December 2005.

9. FINANCE COSTS

	2005 **US$'000**	2004 US$'000
Interest on:		
– bank borrowings wholly repayable within five years	**619**	687
– other borrowings	**30**	8
– three-year loan notes	**97**	99
	746	794

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

10. TAX (CHARGE) CREDIT

Tax (charge) credit comprises:

	2005 US$'000	2004 US$'000
Hong Kong Profits Tax *(note a)*	–	–
PRC Enterprise Income Tax *(note b)*		
– current year	**(13)**	(21)
– overprovision in prior year	**1**	63
Deferred tax (charge) credit *(note 19)*		
– current year	**(91)**	118
– (over)underprovision in prior year	**(937)**	870
	(1,040)	1,030

Notes:

(a) No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incorporated in Hong Kong have no assessable profits for both years.

(b) PRC Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the respective regions of the PRC on the estimated assessable profits of those subsidiaries and associates.

The tax (charge) credit for the year can be reconciled to the loss per the consolidated income statement as follows:

	2005 US$'000	2004 US$'000
Loss before taxation	**(5,057)**	(4,561)
Tax at the domestic income tax rate of 33% (2004: 33%)	**(1,669)**	(1,505)
Tax effect of share of results of associates	**594**	424
Tax effect of expenses not deductible for tax purpose	**277**	997
Tax effect of income not taxable for tax purpose	**(284)**	(1,039)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**196**	351
Effect of preferential tax rates of subsidiaries operating in other jurisdictions in the PRC	**500**	(69)
Tax effect of tax losses not recognised	**490**	786
Utilisation of tax losses previously not recognised	**–**	(42)
Overprovision in prior year	**(1)**	(63)
Over(under)provision of deferred tax assets in prior year	**937**	(870)
Tax charge (credit) for the year	**1,040**	(1,030)

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2005 US$'000	2004 US$'000
Directors' remuneration *(note a)*		
– Fees	14	12
– Other emoluments	45	45
	59	57
Employees' salaries and benefits expense	1,344	1,163
Retirement benefits scheme contributions for other staff *(note b)*	338	199
Total employee benefits expense	1,741	1,419
Allowance for bad and doubtful debts	342	1,089
Amortisation of prepaid lease payments	102	109
Auditors' remuneration	182	165
Exchange losses	58	2
Depreciation of property, plant and equipment	3,013	3,408
Loss on disposal of property, plant and equipment	17	427
Minimum lease payments under operating leases in respect of rented premises	29	38
Share of tax of associates (including in share of results of associates)	–	109
Cost of inventories recognised as expenses	16,423	17,497

Notes:

(a) Emoluments of directors and highest paid employees

(i) The emoluments paid or payable to each of the 5 (2004: 6) directors were as follows:

	Yang Ding Yuan US$'000	**Meng Tung Mei, Grace** US$'000	**Edward S. Yang** US$'000	**Chan Ting-Fung Tim** US$'000	**Lo I Wang** US$'000	**Total** US$'000
For the year ended 31 December 2005						
Fees	–	5	–	5	4	14
Other emoluments						
Salaries and other benefits	43	–	–	–	–	43
Retirement benefits scheme contributions	2	–	–	–	–	2
	45	5	–	5	4	59

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

11. LOSS FOR THE YEAR *(cont'd)*

Notes: (cont'd)

(a) Emoluments of directors and highest paid employees *(cont'd)*

(i) The emoluments paid or payable to each of the 5 (2004: 6) directors were as follows: *(cont'd)*

	Yang Ding Yuan US$'000	**Meng Tung Mei, Grace** US$'000	**Hu Ding Hua** US$'000	**Edward S. Yang** US$'000	**Chan Ting-Fung Tim** US$'000	**Lo I Wang** US$'000	**Total** US$'000
For the year ended 31 December 2004							
Fees	–	5	1	–	5	1	12
Other emoluments							
Salaries and other benefits	43	–	–	–	–	–	43
Retirement benefits scheme contributions	2	–	–	–	–	–	2
	45	5	1	–	5	1	57

(ii) Emoluments of the directors of the Company were within the following band:

	2005 Number of directors	2004 Number of directors
Nil – HK$1,000,000 (equivalent to US$128,436)	**5**	5

(iii) Of the five individuals with the highest emoluments in the Group, one (2004: one) was a director of the Company whose emoluments are included in the disclosures in note 11(a)(i) and (ii) above. The emoluments of the remaining four (2004: four) individuals are as follows:

	2005 US$'000	2004 US$'000
Salaries and other benefits	**326**	352
Retirement benefit scheme contributions	**4**	5
	330	357

Their emoluments were within the following band:

	2005 Number of individuals	2004 Number of individuals
Not exceeding HK$1,000,000 (equivalent to US$128,436)	**4**	4

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

11. LOSS FOR THE YEAR *(cont'd)*

Notes: (cont'd)

(b) Retirement benefits schemes

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

In addition, pursuant to government regulations, for the Group's employees in the PRC, relevant subsidiaries are required to contribute amounts ranging from approximately 14% to 30% of the aggregate staff wages to certain retirement benefit schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contribution.

The total cost charged to the consolidated income statement of US$340,000 (2004: US$201,000) represents contributions to the schemes by the Group at rates specified in the rules of the respective schemes. The amount paid during the year relates to contributions made in connection with the directors of the Company are disclosed in (a)(i) above.

12. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year attributable to equity holders of the Company US$5,068,000 (2004: US$2,995,000) and the weighted average of 9,181,703,043 (2004: 9,155,320,539) shares in issue during the year.

No diluted loss per share is presented for both years as the exercise of the outstanding share options or warrants would result in a decrease in the loss per share.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Plant and equipment US$'000	Furniture and fittings US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
COST OR VALUATION						
At 1 January 2004						
– as originally stated	13,050	33,989	24	1,079	911	49,053
– effect of changes in accounting policies *(note 3)*	(1,669)	–	–	–	–	(1,669)
– as restated	11,381	33,989	24	1,079	911	47,384
Addition	41	132	2	96	323	594
Reclassifications	31	767	–	–	(798)	–
Disposal	(1,699)	–	–	(94)	(3)	(1,796)
At 31 December 2004	9,754	34,888	26	1,081	433	46,182
Additions	73	450	–	15	760	1,298
Reclassifications	–	234	–	–	(234)	–
Disposal	–	(201)	–	(4)	–	(205)
At 31 December 2005	**9,827**	**35,371**	**26**	**1,092**	**959**	**47,275**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2004						
– as originally stated	3,272	20,923	10	932	–	25,137
– effect of changes in accounting policies *(note 3)*	(400)	–	–	–	–	(400)
– as restated	2,872	20,923	10	932	–	24,737
Provided for the year	630	2,698	5	75	–	3,408
Impairment loss recognised	–	449	–	–	–	449
Eliminated on disposal	(581)	–	–	(56)	–	(637)
At 31 December 2004	2,921	24,070	15	951	–	27,957
Provided for the year	534	2,410	5	64	–	3,013
Eliminated on disposal	–	(184)	–	–	–	(184)
At 31 December 2005	**3,455**	**26,296**	**20**	**1,015**	**–**	**30,786**
CARRYING VALUES						
At 31 December 2005	**6,372**	**9,075**	**6**	**77**	**959**	**16,489**
At 31 December 2004	6,833	10,818	11	130	433	18,225

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

13. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

The above items of property, plant and equipment are depreciated on a straight-line basis and the rates per annum are as follows:

	Rate per annum (%)
Buildings on land held under short term leases outside Hong Kong	5 to 10
Land and buildings held under medium term leases in Hong Kong	4
Plant and equipment and furniture and fittings	10 to 33
Motor vehicles	20

	2005 **US$'000**	2004 US$'000
The carrying value of the Group's leasehold land and buildings are held under:		
Medium term lease in Hong Kong	**717**	765
Short term leases in the PRC	**5,655**	6,068
	6,372	6,833

During the year ended 31 December 2004, due to increase in competition and the effect on the profitability in wooden product industry, there existed indication of impairment loss. Impairment loss was recognised based on the recoverable amounts of property, plant and equipment which were determined by the estimated discounted net future cash flows from these property, plant and equipment. The carrying amounts of the property, plant and equipment were reduced to the respective recoverable amounts which were estimated using market borrowing rates.

14. PREPAID LEASE PAYMENTS

	2005 **US$'000**	2004 US$'000
The Group's prepaid lease payments comprise:		
Short term lease in the PRC	**1,058**	1,160
Less: Current portion	**(102)**	(109)
	956	1,051

The prepaid lease payments are amortised over the term of the leases.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

15. INTERESTS IN ASSOCIATES

	2005 **US$'000**	2004 US$'000
Cost of unlisted investments	**9,680**	10,245
Share of reserves	**414**	664
Share of post-acquisition losses	**(7,086)**	(6,050)
Share of net assets	**3,008**	4,859

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

Name of associate	**Place of incorporation/ registration**	**Place of operation**	**Percentage of issued share capital/registered capital held by the Group** %	**Issued share capital/ registered capital**	**Principal activities**
Fulhua Microelectronics Corporation* 福華微電子股份有限公司	Cayman Islands	Taiwan	31.73	Ordinary US$100,000 and Series A & B preference** US$21,290,572	Investment holding
福華先進微電子(上海)有限公司 Fulhua Microelectronics (Shanghai) Corporation *(note 1)*	PRC	PRC	31.73	US$1,000,000	Provision of IC design services
Fulhua Microelectronics Corporation USA, Incorporated	USA	USA	31.73	US$50,000	Inactive
Forward Sino Enterprises Limited	British Virgin Islands	PRC	31.73	US$1	Investment holding
瀋陽福陽人造板有限公司 Shenyang Fuyang Wood-Basal Panel Ltd. *(note 2)*	PRC	PRC	40	US$5,000,000	Manufacture and sale of wooden products
天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. *(note 2)*	PRC	PRC	49.5	US$17,453,021	Manufacture and sale of wooden products
湖北福漢木業有限公司 Hubei Fuhan Timber Co., Ltd. *(note 2)*	PRC	PRC	48.0	US$4,567,565	Manufacture and sale of wooden products

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

15. INTERESTS IN ASSOCIATES *(cont'd)*

* Directly held by the Company.

** The Series A and B preferred shares are voting. They are entitled to receive non-cumulative dividends in preference to the ordinary shares for a value of US$0.01 per share each year, when and if dividends are declared by the board of directors of this subsidiary.

In the event of liquidation or winding up of this associate, the holders of the Series A and B preferred shares shall be entitled to receive, pari passu among themselves, but prior to and in preference to the holders of ordinary shares, out of the assets of this associate that is legally available for distribution, an amount equals to US$0.05 per share, together with any declared but unpaid dividends. All remaining assets of this associate, if any, shall be distributed to the holders of Series A preferred shares and ordinary shares pro rata.

Notes:

(1) This company is a wholly foreign owned enterprise of an associate.

(2) Such companies are Sino-foreign equity joint ventures.

The summarised financial information in respect of the Group's associates is set out below:

	2005 US$'000	2004 US$'000
Total assets	**17,147**	27,591
Total liabilities	**(10,691)**	(22,844)
Net assets	**6,456**	4,747
Group's share of net assets	**3,008**	4,859
Revenue	**14,910**	24,245
Loss for the year	**(5,725)**	(14,394)
Group's share of result for the year	**(1,801)**	(1,285)

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of those associates, extracted from the relevant management accounts of associates, both for the year and cumulatively, are as follows:

	2005 US$'000	2004 US$'000
Unrecognised share of losses of associates for the year	**(237)**	(595)
Accumulated unrecognised share of losses of associates	**(968)**	(5,553)

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

16. INVESTMENTS IN SECURITIES

Investments in securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investments in securities were reclassified to available-for-sale investments under HKAS 39 *(see notes 3 and 17 for details)*.

	2004 US$'000
Investment securities:	
Unlisted equity securities, at cost	3,557
Impairment loss recognised	(3,116)
	441
Carry amount analysed for reporting purpose as:	
Current asset	–
Non-current asset	441
	441

Particulars of the investment in securities at 31 December 2004 are as follows:

Name of investee	Place of incorporation	Proportion of nominal value of issued capital attributable to the Group	Principal activities
優網通國際資訊股份有限公司 UniSVR Global Information Technology Corp. ("UniSVR")	Taiwan	9.38%	Provision of information technology outsourcing services
廊坊福洋木業有限公司 Langfang Fuyang Timber Co., Ltd. #	PRC	51%	Manufacture and sale of wooden products
天津福滿家家具有限公司 Tianjin Fortune Furniture Co., Ltd.	PRC	14.5%	Manufacturing and sale of wooden furniture

\# The Group holds more than half of the issued capital of this company but is not in a position to control the composition of the board of directors or equivalent governing body of this company and therefore the Group does not control Langfang Fuyang Timber Co., Ltd., and the Group is not in a position to exercise significant influence over this company.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

17. INVESTMENTS IN INVESTEE COMPANIES

Investments in investee companies as at 31 December 2005 comprise:

	2005 **US$'000**
Unlisted equity securities, at cost	**3,116**
Impairment loss recognised	**(3,116)**
	–

It represents investments in unlisted equity securities issued by the private entities incorporated in Taiwan and the PRC. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that the fair value cannot be measured reliably as there is no active market information available.

Impairment loss was recognised based on the recoverable amounts of investments in investee companies which were determined by the estimated discounted net future cash flows from these investments in investee companies.

Particulars of the investment in investee companies at 31 December 2005 are as follows:

Name of investee	**Place of incorporation**	**Proportion of nominal value of issued capital attributable to the Group**	**Principal activities**
優網通國際資訊股份有限公司 UniSVR Global Information Technology Corp. ("UniSVR")	Taiwan	9.38%	Provision of information technology outsourcing services
廊坊福洋木業有限公司 Langfang Fuyang Timber Co., Ltd. #	PRC	51%	Manufacture and sale of wooden products

\# The Group holds more than half of the issued capital of this company but is not in a position to control the composition of the board of directors or equivalent governing body of this company and therefore the Group does not control Langfang Fuyang Timber Co., Ltd., and the Group is not in a position to exercise significant influence over this company.

18. CLUB DEBENTURE

The directors consider the carrying amount of the club debenture approximates its fair value.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

19. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group, and the movements thereon during the current and prior periods:

	Allowance for bad and doubtful debt US$'000	**Allowance for slow moving inventories** US$'000	**Tax losses** US$'000	**Impairment loss in respect of plant and equipment** US$'000	**Accelerated accounting depreciation** US$'000	**Total** US$'000
At 1 January 2004	(106)	(27)	(124)	(100)	(626)	(983)
(Credit) charge to income statement for the year	(226)	(243)	(166)	49	468	(118)
Underprovision in prior year	(123)	(31)	143	(100)	(759)	(870)
At 31 December 2004 and 1 January 2005	(455)	(301)	(147)	(151)	(917)	(1,971)
(Credit) charge to income statement for the year	(37)	(11)	71	68	–	91
Overprovision in prior year	43	288	–	–	606	937
At 31 December 2005	(449)	(24)	(76)	(83)	(311)	(943)

At the balance sheet date, the Group has unused tax losses of US$15,014,000 (2004: US$14,195,000) available for offset against future profits. A deferred tax asset has been recognised in respect of US$315,000 (2004: US$483,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$14,699,000 (2004: US$13,712,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of US$2,504,000 (2004: US$1,684,000) that will expire before 2010. Other losses can be carried forward indefinitely.

In addition, the Group has unrecognised deductible temporary differences of US$15,429,000 (2004: US$12,753,000) arising from allowance for bad and doubtful debts, as well as allowance for slow moving inventories at the balance sheet date. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not certain that taxable profit will be available against which the deductible temporary differences can be utilised.

20. INVENTORIES

	2005 **US$'000**	2004 US$'000
Raw materials	**3,270**	2,138
Work in progress	**920**	1,110
Finished goods	**5,039**	3,251
	9,229	6,499

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

21. TRADE AND OTHER RECEIVABLES

	2005 **US$'000**	2004 US$'000
Trade receivables	**4,068**	5,321
Other receivables	**3,911**	4,879
	7,979	10,200

The Group's policy is to allow an average credit period of 90 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	2005 **US$'000**	2004 US$'000
0 – 90 days	**2,924**	3,831
91 – 180 days	**460**	1,103
More than 180 days	**684**	387
	4,068	5,321

The fair values of the Group's trade and other receivables approximate their corresponding carrying amounts.

22. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are unsecured, interest free and repayable within one year. The directors consider the carrying amounts of the amounts due from associates approximate their fair values.

23. TRADE AND OTHER PAYABLES

	2005 **US$'000**	2004 US$'000
Trade payables	**3,724**	2,065
Other payables	**2,359**	2,231
	6,083	4,296

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

23. TRADE AND OTHER PAYABLES *(cont'd)*

The following is an aged analysis of trade payables at the balance sheet date:

	2005 **US$'000**	2004 US$'000
0 – 90 days	**2,104**	1,022
91 – 180 days	**144**	175
More than 180 days	**1,476**	868
	3,724	2,065

The fair values of the Group's trade and other payables approximate their fair values.

24. AMOUNT DUE TO ASSOCIATES

The amounts due to associates are unsecured, interest free and repayable on demand. The directors consider the carrying amount of the amount due to associate approximate to its fair value.

25. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, interest free and repayable on demand. The directors consider the carrying amount of the amount due to ultimate holding company approximates its fair value.

26. BANK AND OTHER BORROWINGS

	2005 **US$'000**	2004 US$'000
Secured bank loans *(note i)*	**9,665**	8,938
Unsecured three-year loan notes *(note ii)*	**1,384**	1,384
Unsecured other borrowings *(note iii)*	**565**	580
	11,614	10,902
Carrying amount repayable:		
Within one year	**10,887**	10,175
Between one to two years	**461**	461
After five years	**266**	266
	11,614	10,902
Less: Amount due within one year shown under current liabilities	**(10,887)**	(10,175)
Amount due after one year	**727**	727

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

26. BANK AND OTHER BORROWINGS *(cont'd)*

Notes:

(i) The bank loans carry fixed interest at a range from 5.580% to 5.840% (2004: 5.310% to 5.841%) per annum.

(ii) According to the corporate restructuring of the Company and its subsidiaries which was completed on 30 March 2001, the creditors of the Group have received three-year loan notes from the Company with an aggregate face value of US$4,400,000 which bear interest at a rate of 7% per annum. The three-year loan notes are repayable in six equal semi-annual instalments. The original repayment schedule of the remaining three instalments of the loan notes at year end has been extended for one more year at a rate of 7% per annum.

(iii) Other borrowings include interest-free borrowings of US$266,000 (2004: US$266,000), which is repayable after five years. The remaining borrowings carry fixed interest rate at 10% (2004: 10%) per annum.

The fair values of the Group's bank and other borrowings approximate their corresponding carrying amounts calculated by discounting the future cash flows at the prevailing market borrowing rates for similar borrowings at the balance sheet date.

The Group's borrowings are denominated in the following currencies:

	US$'000	RMB$'000
As at 31 December 2005	**1,384**	**84,674**
As at 31 December 2004	1,384	78,780

27. SHARE CAPITAL

	Number of shares	**Amount** US$'000
Ordinary share of US$0.001 each		
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	100,000,000,000	100,000
Issued and fully paid:		
At 1 January 2004	9,134,431,954	9,134
Issue of shares upon exercise of warrants *(note)*	27,347,801	27
At 31 December 2004	9,161,779,755	9,161
Issue of shares upon exercise of options	36,000,000	36
At 31 December 2005	9,197,779,755	9,197

Note: During the year ended 31 December 2004, the registered holders of 27,347,801 units of warrants exercised their rights to subscribe for ordinary shares of the Company at exercise price of HK$0.02 per share. All shares issued rank pari passu with the then existing shares in issue in all respects.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

28. SHARE OPTION SCHEMES

A share option scheme was adopted by the Company on 19 November 2001 (the "Share Option Scheme"). Pursuant to the Share Option Scheme, the directors of the Company may, at their discretion, grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group to subscribe for shares in the Company at a price determined by the directors and not less than the highest of:

(i) The closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the options;

(ii) The average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the options; and

(iii) The nominal value of the shares of the Company on the date of grant.

The issue of options under the Share Option Scheme is subject to a maximum of 30% of the issued share capital of the Company from time to time.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

A consideration of HK$1 is payable on the grant of an option.

The weighed average closing price of the Company's shares at dates on which the options were exercised was HK$0.03.

Options are lapsed if the employee leaves the group before the options vest.

Details of the movements of the share options granted under the Share Option Scheme during the year are as follows:

				Number of share options				
Date of grant	**Vesting period**	**Exercise price** HK$	**Exercise period**	**Outstanding at 1 January 2004**	**Lapsed during the year ended 31 December 2004**	**Outstanding at 31 December 2004 and 1 January 2005**	**Exercised during the year ended 31 December 2005**	**Outstanding at 31 December 2005**
Executive and employees								
30 April 2002	30 April 2002 – 31 December 2002	0.050	1 January 2003 – 29 April 2012	31,200,000	–	31,200,000	–	31,200,000
30 April 2002	30 April 2002 – 31 December 2003	0.050	1 January 2004 – 29 April 2012	23,400,000	–	23,400,000	–	23,400,000
30 April 2002	30 April 2002 – 31 December 2004	0.050	1 January 2005 – 29 April 2012	23,400,000	–	23,400,000	–	23,400,000
24 January 2003	24 January 2003 – 26 June 2003	0.021	27 June 2003 – 23 January 2013	60,000,000	–	60,000,000	–	60,000,000
28 January 2003	28 January 2003 – 31 January 2004	0.020	1 February 2004 – 27 January 2013	20,000,000	–	20,000,000	(20,000,000)	–
28 January, 2003	28 January 2003 – 31 January 2005	0.020	1 February 2005 – 27 January 2013	16,000,000	–	16,000,000	(16,000,000)	–
Sub-total				174,000,000	–	174,000,000	(36,000,000)	138,000,000
Directors								
30 April 2002	–	0.050	30 April 2002 – 29 April 2012	250,000,000	(50,000,000)	200,000,000	–	200,000,000
Grand total				424,000,000	(50,000,000)	374,000,000	(36,000,000)	338,000,000

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

28. SHARE OPTION SCHEMES *(cont'd)*

As mentioned in note 2, the Group has, for the first time, applied HKFRS 2 share-based payment to account for equity-settled share-based payment transactions. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share options reserve. In the current year, an amount of share option expense of US$42,000 (2004: nil) has been recognised in the consolidated income statement, with a corresponding adjustment made in the Group's share options reserve.

Pursuant to the Company's shareholders' approval in the special general meeting held on 18 June 2004, the share option scheme of Wood Art International Corporation ("Wood Art"), a subsidiary of the Company, became effective.

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme of Wood Art must not exceed 30% of the number of the issued shares from time to time (subject to the approval of the shareholders of the Company). A consideration of HK$1 is payable on the grant of an option.

Movements in the number of options to subscribe for shares in Wood Art are set out below:

				Number of share options			
	Date of grant	**Exercise period**	**Exercise price**	**Grant during the year ended 31 December 2004**	**Outstanding at 31 December 2004 and 1 January 2005**	**Lapsed during the year ended 31 December 2005**	**At 31 December 2005**
Executive and employee	18 June 2004	18 June 2004 – 17 June 2007	US$1.00	638	638	(638)	–

No options were granted during the year. The consideration received from employees for taking up the options granted under the share option scheme of Wood Art during year ended 31 December 2004 amounted to HK$1.

29. WARRANTS

In accordance with the corporate restructuring of the Group which was completed on 30 March 2001, a total of 1,346,051,326 units of warrants with subscription rights of approximately US$3.4 million were issued. Each warrant entitles the holder thereof to subscribe in cash at an initial subscription price of HK$0.02, subject to adjustments, for one share at any time between the date of issue of the warrants up to 31 March 2004.

Warrants carrying subscription rights of approximately US$70,000 were exercised and resulted in the issue of an additional 27,347,801 shares of US$0.001 each of the Company during year ended 31 December 2004. All outstanding warrants expired on 31 March 2004.

30. RESERVES

General reserve comprises Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in the PRC in accordance with the memorandum and articles of association of those subsidiaries.

Capital reserve represents the reserve arising from the group restructuring which took place in 1996.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

31. CAPITAL COMMITMENTS

At the balance sheet date, the Group had outstanding capital commitments as follows:

	2005 **US$'000**	2004 US$'000
Capital expenditure in respect of acquisition of property, plant and equipment		
– authorised but not contracted for	**1,017**	–
– contracted but not provided for	**426**	2,678
	1,443	2,678

32. LEASING ARRANGEMENTS

At the balance sheet date, the Group had the outstanding commitment of future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2005 **US$'000**	2004 US$'000
Within one year	**44**	29
In the second to fifth year inclusive	**145**	116
Over five years	**23**	52
	212	197

Most of the operating lease payments represent rental payable by the Group for certain of its rented premises for manufacturing purposes in the PRC. Leases are negotiated and rentals are fixed for an average term of five years.

33. PLEDGE OF ASSETS

At 31 December 2005, the Group had pledged certain properties and plant and equipment with carrying amounts of US$428,000 (2004: US$271,000) and US$8,947,000 (2004: US$9,380,000) respectively to various banks for securing bank loans and general banking facilities granted to the Group.

34. CONTINGENT LIABILITIES

As disclosed in last year's financial statements, one of the Group's associates, 天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. ("TFT") was sued by its bankers to repay bank loans of approximately RMB73.6 million. This amount has not been equity accounted for by the Group as TFT has net deficit at 31 December 2004. This amount was guaranteed by another associate, 天津福家家具有限公司 Tianjin Fortune Furniture Co. Ltd. ("TFFCL"). Both TFT and TFFCL was in negotiations with the bankers of TFT for the restructuring of the borrowings of TFT and for rearranging the guarantees granted by TFFCL. As the negotiations had not been completed at 31 December 2004, the ultimate outcome cannot be determined by the directors. However, at 31 December 2004, there was no impact on the Group's share of interest in TFFCL as TFFCL had nil net assets balance as at that date. The interest in the TFFCL was disposed of during the year and the contingent liabilities was released upon the disposal.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

35. RELATED PARTY TRANSACTIONS

(a) Details of the Group's transactions with an associate are as follows:

	2005 **US$'000**	2004 US$'000
Subcontracting fee paid to an associate	–	63

(b) The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 11.

Saved as the above, the Group also had balances with related parties at the balance sheet date which are set out in notes 22, 24 and 25.

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	**Place of incorporation/ registration**	**Place of operation**	**Percentage of issued share capital/ registered capital held** %	**Issued and fully paid capital/ registered capital**	**Principal activities**
Ta Fu Strategic Investment Limited	British Virgin Islands	Hong Kong	100	US$10,000	Investment holding
Wood Art International Corporation	British Virgin Islands	Hong Kong	100	US$10,000	Investment holding
TGT Holdings Corporation	British Virgin Islands	Hong Kong	100	US$2	Investment holding
Fulbond Business Services Limited	Hong Kong	Hong Kong	100	HK$2	Provision of management services
Fulbond Digital Systems Limited	Hong Kong	Hong Kong	100	HK$2	Trading of electronic products
Ta Fu Timber Company Limited	Hong Kong	Hong Kong	100	Ordinary HK$200 and deferred* HK$5,000,000	Investment holding
Ta Fu Flooring Company Limited	Hong Kong	Hong Kong	100	Ordinary HK$200 and deferred* HK$1,000,000	Investment holding

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(cont'd)*

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
Ta Fu International Development Limited	Hong Kong	Hong Kong	100	Ordinary HK$200 and deferred* HK$10,000	Inactive
Fulbond High-Tech Investment Limited	Hong Kong	Hong Kong	100	Ordinary HK$200 and deferred* HK$200	Inactive
Ta Fu Furniture Co., Limited	Hong Kong	Hong Kong	100	Ordinary HK$20 and deferred* HK$20	Investment holding
Senbond Building Materials Limited	Hong Kong	Hong Kong	100	Ordinary HK$200 and deferred* HK$10,000	Provision of management services
Ta Fu Properties Co., Limited	Hong Kong	Hong Kong	100	Ordinary HK$20 and deferred* HK$20	Property investment
瀋陽福昇中密度板有限公司 Shenyang Fusheng Wood Clipboard Co., Ltd. *(Note)*	PRC	PRC	51	US$3,000,000	Manufacture and sale of wooden products
吉林省福春木業有限公司 Jilin Province Fuchun Timber Co., Ltd. *(Note)*	PRC	PRC	55	RMB17,464,000	Manufacture and sale of wooden products
吉林福敦木業有限公司 Jilin Fudun Timber Co., Ltd. *(Note)*	PRC	PRC	67	RMB223,158,165	Manufacture and sale of wooden products

* The deferred shares are non-voting and are not entitled to participate in the distribution of profits in any financial year and are only entitled to a return of capital on liquidation when the net assets of the relevant company available for distribution are in excess of HK$100,000,000,000,000,000.

Note: Such companies are Sino-foreign equity joint ventures.

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