Notes to the Financial Statements

For the year ended 31 December 2005

1. General

The Company is a listed public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Twinning Wealth Limited, incorporated in the British Virgin Islands.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and associate are set out in notes 38 and 20, respectively. The addresses of the registered office and principal place of business of the Company are disclosed in Corporate Information to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is same as the functional currency of the Company.

2. Application of Hong Kong Financial Reporting Standards

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 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 interest and share of tax of an associate have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously included within the interest in an associate, it was eliminated against the carrying amount of the related accumulated amortisation of HK$1,370,000 on 1 January 2005 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be included within the carrying amount of the investment in an associate for impairment tests. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

2. Application of Hong Kong Financial Reporting Standards (continued)

Business Combinations (continued)

Goodwill (continued)

In the current year, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior year adjustment has been made.

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 adoption of HKAS 32 has no significant impact to the presentation of financial instruments in the consolidated financial statements. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Financial Assets and Financial Liabilities other than Debt and Equity Securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities") in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The adoption of HKAS 39 had no material impact to the Group's financial assets and financial liabilities for current and prior accounting period, other than the effect described in the section headed "Derecognition".

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous years. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005. As a result, the Group's bills receivable discounted with full recourse amounted to HK$11,308,000 which were derecognised prior to 1 January 2005 have not been restated. As at 31 December 2005, the Group's bills receivable with full recourse of HK$19,813,000 included in trade receivables have not been derecognised. Instead, the related borrowings of HK$19,813,000 including in current liabilities have been recognised on the balance sheet. This change has had no material effect on the results for the current year.

2. Application of Hong Kong Financial Reporting Standards (continued)

Financial instruments (continued)

Owner-occupied Leasehold Interest in Land

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

3. Summary of the Effects of the Changes in Accounting Policies

The effect of the changes in the accounting policies described in note 2 on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Decrease in amortisation of goodwill on acquisition of an associate	**685**	–
Decrease in depreciation relating to owner-occupied leasehold interest in land, net of deferred taxation	**426**	426
Increase in profit for the year attributable to the equity holders of the Company	**1,111**	426

Analysis of increase in profit for the year by line items presented according to their function:

	2005	2004
	HK$'000	*HK$'000*
Increase in share of result of an associate	**685**	–
Decrease in administrative expenses	**510**	510
Increase in deferred taxation	**(84)**	(84)
	1,111	426

3. Summary of the Effects of the Changes in Accounting Policies (continued)

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

	As at 31 December 2004 (originally stated)	**Adjustments in relation to HKAS 17**	**Adjustment in relation to presentation of minority interest in relation to HKAS 1**	**As at 31 December 2004 (restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	148,166	(24,123)	–	124,043
Prepaid lease payments	–	222	–	222
Deferred tax liabilities	(9,636)	7,719	–	(1,917)
Other assets/liabilities	86,843	–	–	86,843
Net assets	225,373	(16,182)	–	209,191
Share capital	37,464	–	–	37,464
Translation reserve	1,170	(166)	–	1,004
Revaluation reserve	16,016	(16,016)	–	–
Other reserves	170,726	–	–	170,726
Minority interest	–	–	(3)	(3)
Total equity	225,376	(16,182)	(3)	209,191
Minority interest	(3)	–	3	–
	225,373	(16,182)	–	209,191

3. Summary of the Effects of the Changes in Accounting Policies (continued)

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

	As originally stated	Adjustments	As restated
	HK$'000	*HK$'000*	*HK$'000*
Share capital	34,450	–	34,450
Revaluation reserve (in relation to owner-occupied leasehold interest in land)	16,442	(16,442)	–
Translation reserve	791	(166)	625
Minority interest	–	353	353
Other reserves	114,070	–	114,070
Total effects on equity	165,753	(16,255)	149,498

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

HKAS 1 (Amendment)	Capital disclosures[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[2]
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 accounting periods beginning on or after 1 January 2007.
2 Effective for accounting periods beginning on or after 1 January 2006.
3 Effective for accounting periods beginning on or after 1 December 2005.
4 Effective for accounting periods beginning on or after 1 March 2006.

4. Significant Accounting Policies

The consolidated financial statements have been prepared under the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. 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.

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 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.

Investments 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.

Goodwill arising on an acquisition of an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

4. Significant Accounting Policies (continued)

Investments in Associates (continued)

For previously capitalised goodwill arising on acquisition of an associate after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

On subsequent disposal of an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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

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

Interest income from a financial asset 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, Plant and Equipment

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

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

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 income statement in the year in which the item is derecognised.

4. Significant Accounting Policies (continued)

Construction in Progress

Construction in progress represents buildings, plant and machinery under construction for its own use purposes and is stated at cost. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

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.

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.

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. Hong Kong 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.

4. Significant Accounting Policies (continued)

Borrowing Costs

All borrowing costs are recognised as and included in finance costs in the income statement in the year in which they are incurred.

Retirement Benefits Costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and other schemes managed by the PRC government are charged as an expense as they fall due.

Taxation

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

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

Deferred tax is recognised on 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 profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

4. Significant Accounting Policies (continued)

Intangible Assets

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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

Research and Development Expenditures

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant assets is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial Instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the 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.

4. Significant Accounting Policies (continued)

Financial assets

The Group's financial assets are mainly loans and receivables and the accounting policies adopted 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, receivables (including trade receivables, other receivables, dividend receivable from an associate, loan to an associate and bank balances) 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.

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 payables, other payables, accrued expenses and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity Instruments

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

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

5. Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of goodwill included within investment in an associate

Determining whether goodwill included within investment in an associate is impaired requires a comparison of its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. In determining the value in use of the investment, the management estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment. As at 31 December 2005, the carrying amount of goodwill is HK$12,325,000. Details of the recoverable amount calculation are disclosed in note 20.

Deferred taxation

As at 31 December 2005, the Group has not recognised any deferred tax assets in the consolidated balance sheet in relation to its estimated unused tax losses. The recognition 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 more than expected, a material deferred tax assets may be recognised, which would be credited to the consolidated income statement for the year. Details of unused tax losses not recognised amounted to approximately HK$54,818,000 (2004: HK$34,297,000) are disclosed in note 31.

Allowances for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and the carrying value.

6. Financial Risk Management Objectives and Policies

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

Market Risks

Currency Risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. In addition, certain trade receivables, loan receivables and bank borrowings of the Group are denominated in foreign currencies. 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.

6. Financial Risk Management Objectives and Policies (continued)

Market Risks (continued)

Fair Value interest rate risk

The Group's fair value interest rate risk relates primarily to certain fixed rate bank borrowings (see note 28 for details of these borrowings) and bank balances due to fluctuation of prevailing market rates. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Directors consider the Group's exposure to interest rate risk is not significant as the fixed rate bank borrowings are within short maturity period.

Cash Flow Interest Rate Risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank loan (see note 28 for details of these borrowings). The Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows.

Credit Risk

The Group's 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's concentration of credit risk by geographical locations is mainly in Germany including trade receivables from an associate and loan to an associate.

The Group's bank balances are deposited with banks of high credit rating and the Group has limited exposure to any single financial institution.

7. Turnover

Turnover represents the amounts received and receivable for sales of power tools, power tools and hand tools to outside customers, less return and allowances during the year.

8. Segment Information

Geographical segments

The Group is engaged in the manufacture and distribution of power tools, power tools and hand tools. The nature of the products and the production processes and the methods used to distribute the products to customers in different geographical locations are similar. The Directors consider that geographical segments by location of customers are the primary source of the Group's risk and returns.

Segment information by local of customers is as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Europe		
Germany	**110,096**	159,336
Other European countries	**103,651**	98,549
Total	**213,747**	257,885
Australia	**29,453**	43,978
North America and other continents	**20,206**	15,706
Total	**263,406**	317,569

8. Segment Information (continued)

	2005 HK$'000	2004 HK$'000 (restated)
Segment results		
Europe		
Germany	**10,185**	18,281
Other European countries	**13,148**	25,514
Total	**23,333**	43,795
Australia	**2,157**	2,639
North America and other continents	**1,268**	757
Total	**26,758**	47,191
Unallocated corporate income	**8,645**	8,493
Unallocated corporate expenses	**(41,079)**	(37,622)
Finance costs	**(3,773)**	(1,416)
Share of result of an associate	**(5)**	3,272
(Loss) profit before taxation	**(9,454)**	19,918
Taxation	**(81)**	(1,666)
(Loss) profit for the year	**(9,535)**	18,252
Segment assets		
Europe		
Germany	**54,735**	44,943
Other European countries	**30,649**	11,786
Total	**85,384**	56,729
Australia	**5,640**	2,734
North America and other continents	**853**	1,888
Unallocated assets	**331,327**	325,245
	423,204	386,596
Segment liabilities		
Europe		
Germany	**4,379**	8,181
Other European countries	**24,173**	8,507
Total	**28,552**	16,688
Australia	**2,380**	–
North America and other continents	**178**	501
Unallocated liabilities	**199,818**	160,216
	230,928	177,405

8. Segment Information (continued)

Other information:

The assets and liabilities of the Group are located in the PRC including Hong Kong and Macau.

Allowances for doubtful debts of HK$298,000 (2004: HK$2,389,000) are attributable to the customers located in Germany.

Business Segments

In prior years, the Group organised into two major divisions which are manufacturing and outsourcing of goods. During the year, the Directors of the Company have reorganised the presentation of business segments into three major divisions: sales of power tools, air tools and hand tools. The Directors considered the revised presentation can better represent the Group's business segment and the comparative information has been restated.

Segment information about these businesses is presented below:

	Turnover by business segments	
	2005	2004
	HK$'000	*HK$'000*
Sales of power tools	**217,393**	291,700
Sales of air tools	**18,876**	17,039
Sales of hand tools	**15,238**	8,830
Others	**11,899**	–
	263,406	317,569

8. Segment Information (continued)

The following is an analysis of the carrying amount of segment assets and additions to intangible assets and property, plant and equipment by business segments:

	Carrying amount of segment assets		Additions to intangible assets and property, plant and equipment	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Sales of power tools	**287,212**	265,768	**35,327**	10,492
Sales of air tools	**12,060**	16,517	**1,392**	1,377
Sales of hand tools	**13,325**	2,915	**734**	86
Others	**914**	527	**–**	10
Unallocated	**109,693**	100,869	**142**	6
	423,204	386,596	**37,595**	11,971

9. Other Income

	2005	2004
	HK$'000	*HK$'000*
Gain on disposal of property, plant and equipment	**4,139**	281
Interest income from banks	**198**	240
Interest income from an associate	**636**	636
Exchange gain	**–**	3,048
Compensation income *(Note)*	**2,415**	3,833
Sundry income	**1,257**	455
	8,645	8,493

Note: During the year ended 31 December 2005, the Group received HK$2,415,000 from the other shareholders of an associate ("Shareholders") as a compensation as the associate managed by the Shareholders cannot meet the targeted sales agreed between the Group and the Shareholders. As for the year ended 31 December 2004, it represented the compensation received by a subsidiary of the Company in relation to breach of subcontracting agreement in prior years.

10. Directors' Emoluments

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

Year ended 31 December 2005

	Executive Directors			Non-executive Director	Independent non-executive Directors			
	Chen Wai Yuk	Wang Shu	Chen Wai Wah	Ho Hao Veng	Wei Tong Li	Hui Chuen Fan Matthew	Ang Siu Lun, Lawrence	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–	100	40	140
Other emoluments:								
Salaries and other benefits	1,101	130	260	–	–	–	–	1,491
Contributions to retirement benefits scheme	12	7	12	–	–	–	–	31
Total emoluments	1,113	137	272	–	–	100	40	1,662

Year ended 31 December 2004

	Executive Directors			Independent non-executive Directors			
	Chen Wai Yuk	Wang Shu	Chen Wai Wah	Ho Hao Veng	Wei Tong Li	Hui Chuen Fan Matthew	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	–	25	25
Other emoluments:							
Salaries and other benefits	1,040	130	260	–	–	–	1,430
Contributions to retirement benefits scheme	12	7	12	–	–	–	31
Total emoluments	1,052	137	272	–	–	25	1,486

11. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, two (2004: two) were Directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining three (2004: three) individuals were as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	**1,063**	849
Contributions to retirement benefits scheme	**30**	25
Total emoluments	**1,093**	874

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**3**	3

During the years ended 31 December 2005 and 2004, no emoluments were paid by the Group to any of the Directors or the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived any emoluments during the years ended 31 December 2005 and 2004.

12. Finance Costs

The finance costs represent interest on bank borrowings wholly repayable within five years.

13. Taxation

	2005 HK$'000	2004 HK$'000 (restated)
Current tax		
PRC income tax	**–**	555
Land appreciation tax ("LAT") in the PRC	**1,700**	–
Overprovision of PRC income tax in prior years	**(1,649)**	–
	51	555
Deferred taxation on undistributed earnings of an associate *(note 31)*	**30**	1,111
	81	1,666

The Company's subsidiary, Jiangsu Golden Harbour Enterprise Limited ("Golden Harbour"), operating in the PRC is eligible for exemption from the PRC income tax for the year ended 31 December 2002 and 2003, followed by a 50% reduction in the PRC income tax for the next three years. The PRC income tax is calculated at the applicable rates on the assessable profits for the year.

Pursuant to the Decree Law No. 58/99M, Chapter 2, Article 12, dated 18 October 1999, a subsidiary of the Company, Gerrads (Commercial Offshore de Macau) Ltd., is exempted from Macao Complementary Tax. There is no provision in the relevant law and regulations on the duration of such exemption. Accordingly, no provision for relevant income tax in Macau has been made in the consolidated financial statements.

Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulation of the PRC on 13 December 1993, all gains arising from transfer of real estate property in the PRC are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Deferred tax charged to the consolidated income statement represents the withholding tax on the undistributed earnings of the associate shared by the Group.

13. Taxation (continued)

The tax charge for the year can be reconciled to the (loss) profit before taxation per the income statement as follows:

	2005 **HK$'000**	2004 HK$'000 (restated)
(Loss) profit before taxation	**(9,454)**	19,918
Tax at PRC income tax rate of 33% (2004: 33%)	**(3,120)**	6,573
Tax effect of expenses not deductible for tax purpose	**15,153**	4,207
Tax effect of income not taxable for tax purpose	**(15,197)**	(14,741)
Tax effect of tax losses not recognised	**6,772**	5,596
Tax effect of share of results of associate	**2**	(1,080)
Effect of tax exemption granted to a Macau subsidiary	**(1,910)**	–
Overprovision in respect of prior years	**(1,649)**	–
	51	555

14. (Loss) Profit for the Year

	2005 **HK$'000**	2004 HK$'000 (restated)
(Loss) profit for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	8,508	6,408
Amortisation of intangible assets (included in cost of sales)	1,826	621
Amortisation of prepaid lease payments	21	20
Total depreciation and amortisation	10,355	7,049
Directors' emoluments *(note 10)*	1,662	1,486
Other staff costs	12,086	13,378
Contributions to retirement benefit schemes for other staff	1,889	1,817
Total staff costs	15,637	16,681
Auditors' remuneration	1,052	940
Net foreign exchange loss	1,419	–
Research and development expenditure	791	–
Allowances for doubtful debts	298	2,389
Cost of inventories recognised as expenses	222,177	269,757
Share of tax of an associate	358	2,029

15. Dividends

	2005	2004
	HK$'000	*HK$'000*
Ordinary shares		
Interim dividend paid of HK0.8 cent (2004: HK1.2 cent) per share	**2,997**	4,743
Final dividend proposed of HK1.3 cent per share for the year ended 31 December 2004	**–**	4,870
	2,997	9,613
Dividends paid	**8,041**	6,330

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2005.

16. (Loss) Earnings Per Share

The calculation of the basic (loss) earnings per share is based on the loss for the year attributable to equity holders of the Company of HK$9,538,000 (2004: profit of HK$18,608,000) and on 374,640,000 (2004: the weighted average number of 385,210,000) shares in issue.

Impact of Changes in Accounting Policies

Changes in the Group's accounting policies during the year are described in note 3. To the extent that those changes have had an impact on results reported for the year ended 31 December 2005 and 31 December 2004, they have had an impact on the amounts reported for (loss) earnings per share. The following table summaries that impact on basic (loss) earnings per share:

	2005	2004
	HK cent	*HK cent*
Decrease in amortisation of goodwill on acquisition of an associate	**0.2**	–
Decrease in depreciation relating to owner-occupied leasehold interest in land	**0.1**	0.1
	0.3	0.1

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17. Property, Plant and Equipment

	Land use rights HK$'000	Buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST									
At 1 January 2004									
– as original stated	25,183	47,874	46,783	22,943	1,953	6,270	1,761	3,212	155,979
– effect of changes in accounting policies	(25,183)	–	–	–	–	–	–	–	(25,183)
– as restated	–	47,874	46,783	22,943	1,953	6,270	1,761	3,212	130,796
Additions	–	–	3,614	3,514	3,776	155	280	632	11,971
Disposals	–	(868)	–	(153)	–	–	–	(1,198)	(2,219)
Reclassifications	–	3,144	(5,347)	2,114	–	–	89	–	–
At 31 December 2004	–	50,150	45,050	28,418	5,729	6,425	2,130	2,646	140,548
Exchange adjustments	–	965	866	546	38	74	25	45	2,559
Additions	–	10,002	3,267	829	12,592	173	548	370	27,781
Disposals	–	(6,037)	–	(33)	(329)	(310)	–	(185)	(6,894)
Transfer	–	1,990	(47,050)	43,702	–	1,318	40	–	–
At 31 December 2005	**–**	**57,070**	**2,133**	**73,462**	**18,030**	**7,680**	**2,743**	**2,876**	**163,994**
DEPRECIATION									
At 1 January 2004									
– as originally stated	530	2,411	–	1,972	851	3,758	523	1,919	11,964
– effect of changes in accounting policies	(530)	–	–	–	–	–	–	–	(530)
– as restated	–	2,411	–	1,972	851	3,758	523	1,919	11,434
Charge for the year	–	735	–	2,224	1,598	1,026	418	407	6,408
Elimination on disposals	–	(256)	–	(15)	–	–	–	(1,066)	(1,337)
At 31 December 2004	–	2,890	–	4,181	2,449	4,784	941	1,260	16,505
Exchange adjustments	–	62	–	116	30	51	10	25	294
Charge for the year	–	1,078	–	3,732	2,081	721	424	472	8,508
Elimination on disposals	–	(440)	–	(13)	(278)	(279)	–	(157)	(1,167)
At 31 December 2005	**–**	**3,590**	**–**	**8,016**	**4,282**	**5,277**	**1,375**	**1,600**	**24,140**
CARRYING VALUES									
At 31 December 2005	**–**	**53,480**	**2,133**	**65,446**	**13,748**	**2,403**	**1,368**	**1,276**	**139,854**
At 31 December 2004	–	47,260	45,050	24,237	3,280	1,641	1,189	1,386	124,043

17. Property, Plant and Equipment (continued)

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

Buildings	Over the unexpired lease terms
Moulds	20%
Plant and machinery	10%
Leasehold improvements, furniture and fixtures	20 – 33 1/3%
Computer equipment	20%
Motor vehicles	20 – 33 1/3%

All the Group's buildings are situated on the land under medium-term lease outside Hong Kong.

18. Prepaid Lease Payments

All the Group's prepaid lease payments comprise property interests in medium-term leasehold land outside Hong Kong and are amortised over the term of relevant lease ranged from 30 to 50 years.

19. Intangible Assets

	Development costs *HK$'000*	Patents, trademark, licenses and manufacture know-how *HK$'000*	Total *HK$'000*
COST			
At 1 January 2004 and at 31 December 2004	–	9,319	9,319
Additions	5,493	4,321	9,814
At 31 December 2005	**5,493**	**13,640**	**19,133**
AMORTISATION			
Charge for the year and at 31 December 2004	–	621	621
Charge for the year	291	1,535	1,826
At 31 December 2005	**291**	**2,156**	**2,447**
CARRYING VALUES			
At 31 December 2005	**5,202**	**11,484**	**16,686**
At 31 December 2004	–	8,698	8,698

Development costs are internally generated. All of the Group's patents, trademark, licences and manufacture know how were acquired from third parties.

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19. Intangible Assets (continued)

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Development costs	5 years
Patents, trademark, licences, and manufacture know-how	5 to 15 years

20. Interest in an Associate

	2005	2004
	HK$'000	*HK$'000*
Cost of investment in an unlisted associate	**12,473**	12,473
Share of post-acquisition profits and reserves, net of dividends received	**(747)**	7,274
	11,726	19,747

At 31 December 2005, the Group had interest in the following associate:

Name of entity	**Form of business structure**	**Place of incorporation and operation**	**Class of shares held**	**Proportion of issued share capital held by the Group**	**Proportion of voting power held**	**Nature of business**
SBW Technische Gerate GmbH ("SBW")	Incorporated	Germany	Ordinary	50%	50%	Distribution of power tools

20. Interest in an Associate (continued)

Included in the cost of investment in an associate is goodwill of HK$12,325,000 (2004: HK$12,325,000) arising on acquisition of an associate in prior years. The movement of goodwill is set out below.

	HK$'000
COST	
At 1 January 2004 and 31 December 2004	13,695
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see note 3)*	(1,370)
At 31 December 2005	**12,325**
AMORTISATION	
At 1 January 2004	685
Charge for the year	685
At 31 December 2004	1,370
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see note 3)*	(1,370)
At 31 December 2005	**–**
CARRYING VALUES	
At 31 December 2005	**12,325**
At 31 December 2004	12,325

Until 31 December 2004, goodwill had been amortised over 2 years.

During the year ended 31 December 2005, management of the Group determines that there are no impairments of the investment in the associate.

20. Interest in an Associate (continued)

The recoverable amount has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 3-year period, and discount rate of 5%. Another key assumptions for the value in use calculations are the budgeted revenue and gross margin, which is determined based on the unit's past performance and the associate's management's expectations for the market development. Management believes that any reasonably possible change in any of the assumptions would not cause the aggregate carrying amount of goodwill to exceed the aggregate recoverable amount of goodwill.

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

	2005	2004
	HK$'000	*HK$'000*
Non-current assets	**202**	–
Current assets	**79,037**	131,610
Current liabilities	**(79,167)**	(114,194)
Net assets	**72**	17,416
Group's share of net assets of associate	**36**	8,708
Turnover	**149,009**	253,785
(Loss) profit for the year	**(10)**	6,544
Group's share of result of associate for the year	**(5)**	3,272

21. Inventories

	2005	2004
	HK$'000	*HK$'000*
Raw materials	**19,110**	20,443
Work in progress	**10,533**	14,242
Finished goods	**7,610**	3,369
	37,253	38,054

22. Trade and Other Receivables

The Group has a policy of allowing credit period of 20-120 days to its trade customers. In addition, for certain customers with long-established relationship and good past repayment history, a longer credit period may be granted.

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

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**20,968**	14,421
Between 31 to 60 days	**15,307**	4,223
Between 61 to 90 days	**3,866**	904
Between 91 to 120 days	**5,749**	496
Over 120 days	**5,857**	10,236
Trade receivables	**51,747**	30,280
Other receivables	**31,939**	20,172
	83,686	50,452

Included in trade receivables is an amount due from 江蘇蘇美達五金工具有限公司 ("Sumec") of HK$5,798,000 ("Debt"). On 20 March 2006, the Group entered into a debt assignment agreement ("Agreement") with an independent third party, 南通嘉田貿易有限責任公司 ("Nangtong"), pursuant to which the Group agreed to assign the Debt to Nangtong at a cash consideration of HK$5,218,000 ("Consideration"). On 6 April 2006, the Group has signed a supplementary agreement with Nangtong confirming that Nangtong cannot recover the debts from the Group in any events including default on repayment by Sumec. The Consideration of HK$3,894,000 and HK$1,324,000 was received by the Group on 11 April 2006 and 19 April 2006 respectively.

The fair values of the Group's trade and other receivables at 31 December 2005 approximate to the corresponding carrying amounts.

The Group has pledged trade receivables of HK$19,813,000 (2004: Nil) to secure general banking facilities granted to the Group.

23. Other Financial Assets

The fair values of dividend receivable and trade receivables from an associate at 31 December 2005 approximate to the corresponding carrying amounts. The trade receivables from an associate as at 31 December 2004 and 31 December 2005 aged less than 30 days.

24. Loan to an Associate

The loan to an associate is unsecured, bears commercial interest rate and is repayable on demand. The fair value of the loan to an associate at 31 December 2005 approximates to the corresponding carrying amount.

25. Pledged Bank Deposits

The deposit carry fixed interest rate of 5.2%. The pledged bank deposits will be released upon the settlement of relevant bills payable (included in the trade payables). The fair value of pledged bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

26. Bank Balances and Cash

The bank balances carried interest at prevailing interest rates. The fair value of bank balances at 31 December 2005 approximates the corresponding carrying amount. At 31 December 2005, the bank balances and cash of approximately HK$28,090,000 (2004: HK$23,496,000) were denominated in Renminbi which is not freely convertible into other currencies.

27. Trade and Other Payables

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

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**42,549**	57,174
Between 31 to 60 days	**6,176**	9,243
Between 61 to 90 days	**5,107**	13,464
Between 91 to 120 days	**4,514**	6,589
Over 120 days	**4,228**	6,570
Trade payables	**62,574**	93,040
Other payables	**23,420**	11,079
	85,994	104,119

The fair values of the Group's accrued expenses, trade and other payables at 31 December 2005 approximate to corresponding carrying amount.

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28. Bank Borrowings

	2005 HK$'000	2004 HK$'000
Unsecured bank loans	**118,188**	53,381
Secured bank loans	**19,813**	–
	138,001	53,381
Carrying amount repayable:		
On demand or within one year	**125,501**	53,381
More than one year, but not exceeding two years	**12,500**	–
	138,001	53,381
Less: Amounts due within one year shown under current liabilities	**125,501**	53,381
Amounts due after one year	**12,500**	–

The exposure of the Group's fixed-rate borrowings are as follows:

	2005 HK$'000	2004 HK$'000
Within one year	**48,630**	21,146

All other borrowings are at variable rates

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2005	2004
Effective interest rates:		
Fixed-rate borrowings	**5.2% to 6.3%**	5.2%
Variable-rate borrowings	**HIBOR+1.25% to 1.85%, LIBOR+1.25% to 2%**	HIBOR+1.2%

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HK$'000
Bank borrowings denominated in U.S. dollar	
As at 31 December 2005	**75,220**
As at 31 December 2004	13,947

The Directors consider that the carrying amounts of bank borrowings approximate their fair values.

29. Share Capital

	Number of shares	Value HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2004	344,500,000	34,450
Issue of new shares	58,000,000	5,800
Repurchase of shares	(27,860,000)	(2,786)
At 31 December 2004 and 31 December 2005	374,640,000	37,464

30. Other Payable

As at 31 December 2004, the amount represented the remaining consideration due to the shareholders of SBW of EUR 1,000,000, which was interest free, for the acquisition of a 50% interest in SBW as agreed in the joint venture agreement dated 23 August 2002. The entire amount was settled by the Group during the year.

31. Deferred Taxation

The following is the major deferred tax liabilities recognised and movements thereon during the current and prior reporting periods:

	Undistributed earnings of an associate *HK$'000*	**Revaluation of properties** *HK$'000*	**Total** *HK$'000*
At 1 January 2004			
– as originally stated	806	7,803	8,609
– effect of changes in accounting policies	–	(7,803)	(7,803)
– as restated	806	–	806
Charge to income statement for the year	1,111	–	1,111
At 31 December 2004	1,917	–	1,917
Charge to income statement for the year	30	–	30
At 31 December 2005	1,947	–	1,947

At the balance sheet date, the Group has estimated unused tax losses of HK$54,818,000 (2004: HK$34,297,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire on various dates up to 2010.

32. Operating Leases

	2005 ***HK$'000***	2004 *HK$'000*
The Group as lessee		
Minimum lease payments paid under operating leases during the year:		
– Office and factory premises	**322**	288
– Machinery and equipment	**–**	92
	322	380

32. Operating Leases (continued)

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

	Office and factory premises		Machinery and equipment	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**563**	180	**–**	92
In the second to fifth year inclusive	**96**	323	**–**	138
	659	503	**–**	230

Lease for office premise is negotiated for an average term of two years and rentals are fixed for an average of two years.

33. Capital Commitments

	2005	2004
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the consolidated financial statements	**1,846**	10,345

34. Share Option Scheme

The Company operates a share option scheme ("Share Option Scheme") for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include (i) any employee or proposed employee (whether full time or part time, including any executive Director but not any non-executive Director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds any equity interest; (ii) any non-executive Director or proposed non-executive Director (including independent non-executive Director) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier or potential supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer or potential customer of the Group or any Invested Entity; (v) any person or entity that provides or will provide research, development or other technological support to the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any joint venture partner or business alliance that co-operates with any member of the Group or any Invested Entity in any area of business operation or development. The Share Option Scheme became effective on 26 April 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 11 April 2002.

34. Share Option Scheme (continued)

As at the date of this annual report, the total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group is 33,600,000, representing 10% of the issued share capital of the Company as at the date of listing of the Company's shares on the Stock Exchange. The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the Share Option Scheme, if earlier.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

As at 31 December 2005, no share options have been granted to any eligible participants since the adoption of the Share Option Scheme.

35. Contingent Liabilities

At 31 December 2005, the amount of bills discounted with recourse was HK$11,308,000.

36. Retirement Benefits Schemes

The Group operates retirement schemes and a central provident fund scheme covering their employees in Hong Kong. The Group has joined the MPF Scheme for qualifying employees of the Group in Hong Kong. Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance which is 5% on the basic salary of the relevant employee subject to a specific ceiling.

The calculation of contributions for PRC eligible staff is based on 20% of the applicable payroll costs.

Total contributions to retirement benefits schemes charged to consolidated income statement amounted to HK$1,920,000 (2004: HK$1,848,000).

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37. Related Party Transactions

During the year, the Group entered into the following transactions with related parties:

(a) During the year, the Group sold goods to an associate and received interest income from an associate amounting to HK$72,738,000 (2004: HK$131,590,000) and HK$636,000 (2004: HK$636,000) respectively. Details of the balances due from an associate are set out on page 33.

(b) A corporate guarantee was given by a related company owned by a Director of the Company, Chen Wai Yuk, amounted to HK$26,415,000 in respect of credit facilities granted to the Group. This guarantee has been released in April 2004.

(c) The Directors of the Company considered that they are the only key management personnel of the Group. Their remuneration are set out in note 10.

38. Particulars of Subsidiaries at 31 December 2005

Name	Form of business structure	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Chief Wealth International Corp.	Corporation	British Virgin Islands	Share US$1	–	100%	Investment holding
Gerrards Agents Limited	Corporation	British Virgin Islands	Share US$1	–	100%	Commission agency for overseas sales
Gerrards (Commercial Offshore de Macau) Ltd.	Offshore company	Macau	Quota capital MOP100,000	–	100%	Trading of power tools and air tools
Glory In Group Limited	Corporation	British Virgin Islands	Shares US$50,000	–	100%	Investment holding
Haian Juquan Industry Company Limited	Wholly foreign owned enterprise ("WFOE")	PRC	Registered capital HK$48,000,000 *(Note a)*	–	100%	Inactive
Jiangsu Golden Harbour Enterprises Limited	WFOE	PRC	Registered capital US$12,000,000	–	100%	Manufacture and distribution of power tools
Jiangsu Newairy Technology Limited	WFOE	PRC	Registered capital US$2,600,000 *(Note b)*	–	100%	Manufacture of power and air tools

38. Particulars of Subsidiaries at 31 December 2005 (continued)

Name	Form of business structure	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Rainy Company Inc.	Corporation	British Virgin Islands	Share US$1	–	100%	Investment holding
SBW (Hong Kong) Limited	Corporation	Hong Kong	Ordinary shares HK$100	–	100%	Financing
Suzhou Dong Xin Tools Company Limited	Sino-foreign equity joint venture	PRC	Registered capital US$556,000	–	91%	Manufacture and distribution of power tools
Suzhou Rheinkraft Tools Company Limited	WFOE	PRC	Registered capital US$500,000	–	100%	Manufacture and distribution of power tools
Taiwan Wang Sing International Technology Company Limited	Corporation	Taiwan	Registered capital NTD10,000,000	–	100%	Research and development of power and air tools
United Win International Corporation	Corporation	British Virgin Islands	Shares US$100	100%	–	Investment holding
Wang Sing Products Limited	Corporation	Hong Kong	Ordinary shares HK$1,000,000	–	100%	Trading of power and air tools
Wealth Code Inc.	Corporation	British Virgin Islands	Shares US$50,000	–	100%	Investment holding
Worldwide Chain Limited	Corporation	British Virgin Islands	Share US$1	–	100%	Investment holding
World Wisdom Industrial Limited	Corporation	British Virgin Islands	Share US$1	–	100%	Trading of merchandise

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

Notes:

(a) The paid up capital was HK$32,000,000 at 31 December 2005.

(b) The paid up capital was US$1,150,000 at 31 December 2005.