NOTES TO FINANCIAL STATEMENTS

31 December 2005

1. CORPROATE INFORMATION

Tongda Group Holdings Limited is a limited liability company incorporated in the Cayman Islands.

The registered office of the company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands.

The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

In the opinion of the directors, the parent and the ultimate holding company of the Group is Landmark Worldwide Holdings Limited, which is incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC) – Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK – Int 4	Leases – Determining of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 31, 32, 33, 36, 37, 38, 39, 39 Amendment, 40, HKFRS 3, HK(SIC) – Int 21 and HK – Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

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

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and a jointly-controlled entity is presented net of the Group's share of tax attributable to associates and a jointly-controlled entity.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

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

(a) HKAS 17 – Leases

Upon the adoption of HKAS 17, the Group's land use rights are classified as operating leases, because the title of the land is not expected to pass to the Group by the end of the lease term, and are classified as prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms. When the lease payment cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment. The directors consider that no reliable source of such allocation of lease payments could be obtained, and accordingly, the land and buildings elements in Hong Kong have not been separated.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The effect of this change on the consolidated balance sheet is summarised in note 2.4 to the financial statements. A prior year adjustment is resulted that, as at 31 December 2004, the prepaid land lease payments decreased by HK$4,099,000, deferred tax liabilities decreased by HK$1,107,000 and the asset revaluation reserve decreased by HK$2,992,000 since the land use rights are previously stated at valuation less accumulated amortisation and any impairment losses. The comparatives on the consolidated balance sheet for the year ended 31 December 2004 have been restated.

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

(b) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

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

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

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures

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

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

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2004 Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 1 Presentation *HK$'000*	HKAS 17 Presentation *HK$'000*	Total *HK$'000*
Assets			
Property, plant and equipment	(1,800)	–	(1,800)
Investment property	1,800	–	1,800
Land use rights	–	(18,972)	(18,972)
Prepaid land lease payments	–	18,972	18,972
			–

At 31 December 2004 Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 1 Presentation *HK$'000*	HKAS 17 Presentation *HK$'000*	HKAS 17 Prepaid land lease payments *HK$'000*	Total *HK$'000*
Assets				
Property, plant and equipment	(1,800)	–	–	(1,800)
Investment property	1,800	–	–	1,800
Land use rights	–	(25,020)	–	(25,020)
Prepaid land lease payments:				
Non-current portion	–	24,580	(4,099)	20,481
Current portion included in prepayments, deposits and other receivables	–	440	–	440
				20,921
				(4,099)
Liabilities/equity				
Deferred tax liabilities	–	–	(1,107)	(1,107)
Asset revaluation reserve	–	–	(2,992)	(2,992)
				(4,099)

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

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

At 31 December 2005	Effect of adopting HKAS 1	HKAS 17	HKAS 17	HKFRS 2	
Effect of new policies (Increase/(decrease))	Presentation	Presentation	Prepaid land lease payments	Equity-settled share option arrangements	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Property, plant and equipment	(1,800)	–	–	–	(1,800)
Investment property	1,800	–	–	–	1,800
Land use rights	–	(18,947)	(4,099)	–	(23,046)
Prepaid land lease payments:					
Non-current portion	–	18,463	–	–	18,463
Current portion included in prepayments, deposits and other receivables	–	484	–	–	484
					18,947
					(4,099)
Liabilities/equity					
Deferred tax liabilities	–	–	(1,107)	–	(1,107)
Share option reserve	–	–	–	1,075	1,075
Asset revaluation reserve	–	–	(2,992)	–	(2,992)
Retained profits	–	–	–	(1,075)	(1,075)
					(4,099)

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

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

Group	Effect of adopting HKAS 17
Effect of new policies	**Prepaid land lease payments** *HK$'000*
1 January 2005	
Decrease in asset revaluation reserve	2,992

There is no effect on the balances of equity on 1 January 2004.

(c) Effect on the consolidated income statement for the year ended 31 December 2005

	Effect of adopting HKFRS 2
Effect of new policies	**Equity-settled share option arrangements** *HK$'000*
Increase in administrative expenses	1,075
Decrease in profit	(1,075)
Decrease in basic earnings per share	HK0.033 cents
Decrease in diluted earnings per share	HK0.033 cents

There is no effect on the consolidated income statement for the year ended 31 December 2004.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint Venture

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

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

A joint venture company is treated as:

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

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

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

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

Jointly-controlled entities

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

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

The results of jointly-controlled entity is included in the Company's income statement to the extent of dividends received and receivables. The Company's interests in jointly-controlled entity is treated as non-current assets and is stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

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

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

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

(g) the party is a post-employment benefits plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value, over the following estimated useful lives:

Leasehold buildings in Hong Kong	Over the lease terms
Leasehold buildings in Mainland China	Over the lease terms
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Plant and machinery	10 – 12 years
Furniture, fixtures and office equipment	5 – 10 years
Motor vehicles	5 – 10 years

Estimated residual values are determined as 10% of the original purchase cost of each individual underlying asset.

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

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

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

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs at construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or other assets when completed and ready for use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Inventories

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

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payment cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets (applicable to the year ended 31 December 2005)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Loans and receivables

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

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

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

Assets carried at amortised cost

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Income tax

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that is will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

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

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

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

Revenue recognition

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

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

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

(d) dividend income, when the shareholders' right to receive payment has been established.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes Model, further details of which are given in note 29. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions (continued)

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

Retirement benefits scheme

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

The Group's subsidiaries in Mainland China are required to participate in the employee retirement scheme operated by the relevant local government bureau in Mainland China and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages for those eligible employees.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

Provision for obsolete inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

Impairment allowances for bad and doubtful debts

Impairment allowances for bad and doubtful debts is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

Estimation of fair value of an investment property

As described in note 14, the investment property as revalued at the balance sheet date on market value existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

4. SEGMENT INFORMATION

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

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

(a) the electrical fittings segment produces accessories for electrical appliance products;

(b) the ironware parts segment is a supplier of metallic casings and other ironware parts for electrical and electronic appliances;

(c) the communication facilities segment is a supplier of electronic components and fibre optic cable, the essential components of communication equipment; and

(d) the corporate and others segment comprises the trading of electrical appliances, the Group's management services business and the corporate income and expense items.

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

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

4. SEGMENT INFORMATION (CONTINUED)

(a) Business segments

The following tables present revenue and results and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group

	Electrical fittings		Ironware parts		Communication facilities		Corporate and others		Eliminations		Consolidated	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000 (Restated)
Segment revenue:												
Sales to external customers	400,728	256,130	417,616	318,171	233,555	165,008	60,216	76,627	–	–	1,112,115	815,936
Intersegment sales	723	1,379	2,056	2,050	–	–	–	–	(2,779)	(3,429)	–	–
Total	401,451	257,509	419,672	320,221	233,555	165,008	60,216	76,627	(2,779)	(3,429)	1,112,115	815,936
Segment results	105,265	67,220	22,082	39,578	17,882	11,328	(2,278)	(6,389)	(2,167)	(1,166)	140,784	110,571
Unallocated income											9,071	4,900
Finance costs											(14,583)	(9,040)
Share of profits and losses of												
Associates											4,794	5,494
A jointly-controlled entity											1,815	–
Profit before tax											141,881	111,925
Tax											(17,941)	(12,824)
Profit for the year											123,940	99,101
Segment assets	475,146	301,948	272,787	315,330	409,811	189,462	136,668	102,347	(425,530)	(181,537)	868,882	727,550
Unallocated assets	–	–	–	–	–	–	–	–	–	–	141,778	99,463
											1,010,660	827,013
Segment liabilities	291,031	187,932	92,423	116,342	256,849	106,794	44,176	66,963	(425,530)	(181,537)	258,949	296,494
Unallocated liabilities	–	–	–	–	–	–	–	–	–	–	270,383	158,401
Total liabilities											529,332	454,895
Other segment information:												
Depreciation	11,387	6,034	7,629	7,766	4,376	3,462	241	592	–	–	23,633	17,854
Amortisation of prepaid land lease payments	360	350	46	20	93	70	–	–	–	–	499	440
Impairment allowances for bad and doubtful debts	1,778	561	(624)	–	1,848	109	119	–	–	–	3,121	670
Write-off of trade receivables	–	–	2,155	–	–	–	–	–	–	–	2,155	–
Provision for/(write-back of) obsolete inventories	–	–	(1,206)	1,548	419	80	–	–	–	–	(787)	1,628
Loss/(gain) on disposal of items of property, plant and equipment	266	–	–	–	(388)	–	24	–	–	–	(98)	–
Amortisation of prepayments	–	–	793	591	–	–	–	–	–	–	793	591
Loss on disposal of a subsidiary	–	–	–	–	–	–	1,374	–	–	–	1,374	–
Surplus on revaluation of leasehold buildings recognised directly in equity	–	–	–	–	–	–	(5,808)	(3,451)	–	–	(5,808)	(3,451)
Surplus on revaluation of an investment property	–	–	–	–	–	–	(1,100)	(250)	–	–	(1,100)	(250)
Capital expenditure	41,733	35,117	24,268	27,605	25,151	9,472	110	1	–	–	91,262	72,195

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table presents revenue and certain assets and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group

	Hong Kong		Mainland China		Southeast Asia		Australia		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
Segment revenue:												
Sales to external customers	88,359	75,774	811,723	578,768	74,758	18,880	59,631	77,643	77,644	64,871	1,112,115	815,936
Segment assets	163,003	63,746	769,717	715,146	22,864	2,244	30,682	44,880	24,394	997	1,010,660	827,013
Other segment information:												
Capital expenditure	110	9	91,152	72,186	-	-	-	-	-	-	91,262	72,195

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

6. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest expenses on bank loans, overdrafts and other loans wholly repayable within five years	14,583	9,040

7. PROFIT BEFORE TAX

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

	2005 HK$'000	2004 HK$'000
Cost of inventories sold	**885,172**	642,533
Employee benefits expense (excluding directors' remuneration – note 8)		
Salaries and wages	**86,962**	62,889
Equity-settled share option benefits	**41**	–
Pension scheme contributions	**164**	149
Less: Amounts included in research and development costs	**(4,360)**	(2,208)
	82,807	60,830
Minimum lease payments under operating leases of land and buildings	**1,401**	960
Auditors' remuneration	**1,200**	980
Depreciation	**23,633**	17,854
Amortisation of prepaid land lease payments	**499**	440
Research and development costs	**16,990**	9,032
Changes in fair value of investment property	**(1,100)**	(250)
Amortisation of prepayments	**793**	591
Impairment allowances for bad and doubtful debts, net	**3,121**	670
Write-off of trade receivables	**2,155**	–
Provisions for/(write-back of) obsolete inventories	**(787)**	1,628
Gain on disposal of items of property, plant and equipment	**(98)**	–
Gross rental income with nil outgoings	**(1,821)**	(613)
Bank interest income	**(628)**	(15)
Foreign exchange differences, net	**(1,317)**	35
Loss on disposal of a subsidiary	**1,374**	–

Cost of inventories sold includes HK$96,815,000 (2004: HK$66,787,000) relating to staff costs, operating lease rentals on land and buildings, amortisation of prepayments, and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fees	375	270
Other emoluments:		
Salaries, allowances and benefits in kind	3,580	3,721
Equity-settled share option benefits	1,034	–
Pension scheme contributions	174	159
	4,788	3,880
	5,163	4,150

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2005	2004
	HK$'000	*HK$'000*
Mr. Wong Kong Hon, SBS, JP	120	120
Mr. Ting Leung Huel, Stephen	135	120
Mr. Cheung Wah Fung, Christopher, JP	120	30
	375	270

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

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Directors' remuneration *(continued)*

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005					
Executive directors:					
Mr. Wang Ya Nan	360	740	–	54	1,154
Mr. Wang Ya Hua	144	476	–	30	650
Mr. Wong Ah Yu	144	476	269	30	919
Mr. Wong Ah Yeung	144	476	662	30	1,312
Mr. Choi Wai Sang	144	476	103	30	753
	936	2,644	1,034	174	4,788
2004					
Executive directors:					
Mr. Wang Ya Nan	–	1,046	–	54	1,100
Mr. Wang Ya Hua	–	590	–	30	620
Mr. Wong Ah Yu	–	620	–	–	620
Mr. Wong Ah Yeung	–	590	–	30	620
Mr. Choi Wai Sang	–	590	–	30	620
Mr. Shi Bi Xi	–	285	–	15	300
	–	3,721	–	159	3,880

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

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Five Highest Paid Employees

The five highest paid employees during the year included four (2004: five) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2004: Nil), non-director, highest paid employee for the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	801	–
Pension scheme contributions	12	–
	813	–

The above remuneration of the non-director, highest paid individual employee fell within the band of nil – HK$1,000,000.

9. TAX

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

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current – Hong Kong		
Charge for the year	4,489	261
Overprovision in prior years	(38)	–
Current – Elsewhere		
Charge for the year	23,237	12,325
Under/(over) provision in prior years	(9,747)	368
Deferred (note 27)	–	(130)
Total tax charge for the year	17,941	12,824

9. TAX *(continued)*

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Accounting profit before tax	**141,881**	111,925
Tax at the statutory tax rate of 15.75%	**1,922**	1,174
Tax at the statutory tax rate of 17.5%	**762**	52
Tax at the statutory tax rate of 33%	**41,356**	34,378
Lower applicable tax rate enjoyed by the Group	**(18,503)**	(21,173)
Estimated tax effect of net expenses that are not deductible in determining taxable profit	**4,370**	1,373
Profit attributable to a jointly-controlled entity and associates	**(2,181)**	(1,813)
Estimated tax losses utilised from previous periods	**–**	(409)
Estimated tax losses not recognised	**–**	728
Adjustment in respect of current tax of previous periods	**(9,785)**	368
Tax concession	**–**	(1,854)
Tax charge at the Group's effective rate	**17,941**	12,824

Three of the Group's subsidiaries operating in Mainland China are subjected to the People's Republic of China's corporate income tax at the preferential tax rate of 27% (2004: 27%). Taxes on the assessable profits of another two subsidiaries operating in Mainland China are subject to preferential tax rates of 7.5% and 15%, as these two subsidiaries are entitled to a 50% relief from income tax in their fifth and third profit-making year, respectively.

The share of tax attributable to associates amounting to HK$2,234,000 (2004: tax credit of HK$68,000) is included in "Share of profits and losses of associates " on the face of the consolidated income statement. The jointly-controlled entity operating in Mainland China is exempted from corporate income tax for two years from its first profit making year and are eligible for a 50% relief from income tax for the following three years under the Income Tax Law. No provision for corporate income tax has been made for the jointly-controlled entity because the jointly-controlled entity is in its first profit making year.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit attributable to ordinary equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company is HK$9,972,000 (2004: HK$56,662,000) (note 30(b)).

11. DIVIDENDS

	2005 *HK$'000*	2004 *HK$'000*
Interim – HK0.50 cent (2004: HK0.70 cent) per ordinary share	16,497	23,096
Special – HK0.20 cent (2004: Nil) per ordinary share	6,599	–
Proposed final – HK0.50 cent (2004: HK0.30 cent) per ordinary share	16,497	9,899
	39,593	32,995

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

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

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary equity holders of the Company of HK$124,807,000 (2004: HK$98,334,000), and the weighted average of 3,299,500,000 (2004: 3,251,407,104) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2005 is based on the net profit for the year attributable to ordinary equity holders of the Company of HK$124,807,000. The weighted average number of ordinary shares used in the calculation is the 3,299,500,000 ordinary shares in issued during the year, as used in the basic earnings per share calculation and the weighted average of 1,083,516 ordinary shares assumed to have been issued at no consideration on the deemed exercise of 52,000,000 share options during the year.

The diluted earnings per share for the year ended 31 December 2004 had not been disclosed as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's ordinary shares during that year and thus the share options have no diluting effect.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold buildings in Hong Kong HK$'000	Leasehold buildings in Mainland China HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005								
Cost or valuation:								
At beginning of year	17,200	53,924	7,382	178,974	8,293	11,837	6,610	284,220
Additions	–	4,024	–	49,598	2,253	2,572	36,785	95,232
Disposals	–	(10)	–	(1,754)	(69)	–	–	(1,833)
Disposal of a subsidiary *(note 31)*	–	(10,978)	–	(36,496)	(788)	(4,874)	(441)	(53,577)
Transfer to leasehold buildings	–	27,324	–	–	–	–	(27,324)	–
Transfer to plant and machinery	–	–	–	5,294	–	–	(5,294)	–
Transfer to furniture, fixtures and office equipment	–	–	–	–	42	–	(42)	–
Transfer to prepayments *(note 19)*	–	–	–	–	–	–	(1,000)	(1,000)
Surplus on revaluation	5,500	–	–	–	–	–	–	5,500
Exchange realignment	–	1,550	179	5,216	205	330	196	7,676
At 31 December 2005	22,700	75,834	7,561	200,832	9,936	9,865	9,490	336,218
Accumulated depreciation:								
At beginning of year	–	10,944	2,237	41,122	2,819	4,737	–	61,859
Provided for the year	308	3,833	493	16,542	1,236	1,221	–	23,633
Write-back on disposals	–	(4)	–	(957)	(41)	–	–	(1,002)
Disposal of a subsidiary *(note 31)*	–	(3,284)	–	(14,692)	(586)	(2,778)	–	(21,340)
Reversal upon revaluation	(308)	–	–	–	–	–	–	(308)
Exchange realignment	–	316	40	1,211	57	136	–	1,760
At 31 December 2005	–	11,805	2,770	43,226	3,485	3,316	–	64,602
Net book value:								
At 31 December 2005	22,700	64,029	4,791	157,606	6,451	6,549	9,490	271,616
At 31 December 2004	17,200	42,980	5,145	137,852	5,474	7,100	6,610	222,361

An analysis of the cost or valuation of the property, plant and equipment of the Group is as follows:

	Leasehold buildings in Hong Kong HK$'000	Leasehold buildings in Mainland China HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At cost	–	75,834	7,561	200,832	9,936	9,865	9,490	313,518
At 31 December 2005 valuation	22,700	–	–	–	–	–	–	22,700
At 31 December 2005	22,700	75,834	7,561	200,832	9,936	9,865	9,490	336,218

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

Group

	Leasehold buildings in Hong Kong	Leasehold buildings in Mainland China	Leasehold improve-ments	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2004								
Cost or valuation:								
At beginning of year	14,000	36,088	7,382	128,427	4,966	7,615	11,537	210,015
Additions	–	466	–	50,149	3,398	4,222	13,960	72,195
Transfer to leasehold buildings	–	17,370	–	–	–	–	(17,370)	–
Transfer to plant and machinery	–	–	–	398	(71)	–	(327)	–
Transfer to prepayments *(note 19)*	–	–	–	–	–	–	(1,190)	(1,190)
Surplus on revaluation	3,200	–	–	–	–	–	–	3,200
At 31 December 2004	17,200	53,924	7,382	178,974	8,293	11,837	6,610	284,220
Accumulated depreciation:								
At beginning of year	–	8,665	1,786	28,232	1,937	3,636	–	44,256
Provided for the year	251	2,279	451	12,890	882	1,101	–	17,854
Reversal upon revaluation	(251)	–	–	–	–	–	–	(251)
At 31 December 2004	–	10,944	2,237	41,122	2,819	4,737	–	61,859
Net book value:								
At 31 December 2004	17,200	42,980	5,145	137,852	5,474	7,100	6,610	222,361
At 31 December 2003	14,000	27,423	5,596	100,195	3,029	3,979	11,537	165,759

An analysis of the cost or valuation of the property, plant and equipment of the Group is as follows:

Group

	Leasehold buildings in Hong Kong	Leasehold buildings in Mainland China	Leasehold improve-ments	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	53,924	7,382	178,974	8,293	11,837	6,610	267,020
At 31 December 2004 valuation	17,200	–	–	–	–	–	–	17,200
At 31 December 2004	17,200	53,924	7,382	178,974	8,293	11,837	6,610	284,220

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

The Group's leasehold buildings situated in Hong Kong were revalued at the balance sheet date by RHL Appraisal Ltd., an independent firm of professionally qualified valuers, at an open market value basis of HK$22,700,000 (2004: HK$17,200,000). Revaluation surpluses of HK$5,808,000, resulting from the above valuations, have been credited to the asset revaluation reserve.

The Group's leasehold buildings situated in Hong Kong at valuation of HK$22,700,000 are held under long term leases. The Group's leasehold buildings situated in Mainland China are held under medium term leases.

Had all of the Group's leasehold buildings situated in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$13,197,000 (2004: HK$13,448,000).

The Group's leasehold buildings with net book value of HK$18,241,000 in Mainland China have been pledged as security against banking facilities granted to the Group *(note 26)*.

As at 31 December 2005, the Group has not yet obtained the title ownership certificates for certain of its buildings situated in Xiamen City and Shishi city, Fujian, in Mainland China with net book value of approximately HK$18,970,000 (2004: HK$18,800,000). The Company's directors confirmed that, as the Group has properly obtained the land use right certificates in respect of the land on which the buildings located, there is no legal barrier or otherwise for the Group to obtain the relevant buildings ownership certificates for the buildings from the relevant Mainland China authority. As disclosed in the prior years' annual reports, when all the relevant buildings ownership certificates are obtained, the results of the revaluation for the leasehold buildings in Mainland China will be reflected.

14. INVESTMENT PROPERTY

	2005 *HK$'000*	2004 *HK$'000*
Carrying amount at 1 January	**1,800**	1,550
Net profit from a fair value adjustment	**1,100**	250
Carrying amount at 31 December	**2,900**	1,800

The Group's investment property held under the medium term lease is situated in Hong Kong and has been pledged as security against banking facilities granted to the Group (note 26).

14. INVESTMENT PROPERTY *(continued)*

The Group's investment property was revalued on 31 December 2005 by RHL Appraisal Ltd, an independent firm of professionally qualified valuers, at an open market, existing use basis of HK$2,900,000 (2004: HK$1,800,000). The investment property is leased to third parties under operating leases, further summary details of which are included in note 34 to the financial statements.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Carrying amount at 1 January	**–**	–
As previously reported		
Effect of adopting HKAS 17 *(note 2.2(a) and 2.4(a))*	**20,921**	18,972
As restated	**20,921**	18,972
Disposals	**(1,254)**	–
Disposal of a subsidiary *(note 31)*	**(825)**	–
Transfer from prepayments *(note 19)*	**–**	2,389
Recognised during the year	**(499)**	(440)
Exchange realignment	**604**	–
Carrying amount at 31 December	**18,947**	20,921
Current portion included in prepayments, deposits and other receivables	**(484)**	(440)
Non-current portion	**18,463**	20,481

The leasehold land is held under medium term lease and is situated in Mainland China. As at 31 December 2005, the Group's land use rights, classified as prepaid land lease payments, with net book value of HK$2,310,000 (2004: HK$2,310,000) was pledged as security against banking facilities granted to the Group (note 26).

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted investments, at cost	**79,379**	79,379

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

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2005	2004	
Directly held					
Tong Da Holdings (BVI) Limited	British Virgin Islands ("BVI")	Ordinary US$10,000	**100**	100	Investment holding
Indirectly held					
Tong Da General Holdings (H.K.) Limited	Hong Kong	Ordinary HK$880,000	**100**	100	Investment holding and raw material sourcing
Ever Target Limited	Hong Kong	Ordinary HK$4	**100**	100	Investment holding and raw material sourcing

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
<u>Indirectly held</u> *(continued)*					
Tongda Group International Limited	Hong Kong	Ordinary HK$2	**100**	100	Investment holding
Tongda Optical Fiber Technology Limited	Hong Kong	Ordinary HK$100,000	**86.67**	86.67	Investment holding
Tongda Electrics Company Limited, Shishi *(Note 1)*	People's Republic of China ("PRC")/ Mainland China	Registered Renminbi ("RMB") 16,513,686	**100**	100	Manufacture and sale of accessories for electrical appliance products
Tongda Electronic Company Limited, Shishi City *(Note 2)*	PRC/ Mainland China	Registered RMB10,000,000	**100**	100	Manufacture and sale of resistors and other electronic products
Xiamen Optic Conduct Cable Company Limited *(Note 3)*	PRC/ Mainland China	Registered RMB55,658,309	**70**	65	Manufacture and sale of fiber optic cable
Tongda Ironware (Shenzhen) Company Limited *(Note 4)*	PRC/ Mainland China	Registered HK$26,002,255	**100**	100	Manufacture and sale of ironware products

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Indirectly held *(continued)*					
Tongda (Shenzhen) Company Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Investment holding
Tongda Overseas Company Limited	BVI/Mainland China	Ordinary US$1	**100**	100	Provision of administrative management and services
Taxdeal Properties Limited	BVI/Mainland China	Ordinary US$1	**100**	100	Dormant
Tabcombe Consultants Limited	BVI/Mainland China	Ordinary US$1	**100**	100	Dormant
Tongda Overseas Macao Commercial Offshore Limited	Macau	Ordinary MOP100,000	**100**	100	Trading of electrical appliance products
Wisdom Mark Industries Limited	BVI/Mainland China	Ordinary US$1	**100**	100	Provision of quality control and technical support services
Best Buy Limited	BVI/Mainland China	Ordinary US$1	**100**	100	Provision of marketing services

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
<u>Indirectly held</u> *(continued)*					
South Win Limited	Hong Kong	Ordinary HK$1,000	**100**	100	Investment holding
Tongda Smart Technology Company Limited *(Note 5)*	Hong Kong	Ordinary HK$300,000	**100**	90	Dormant
Tongda (Xiamen) Company Limited	Hong Kong	Ordinary HK$10,000	**100**	–	Investment holding

Notes:

1. Tongda Electrics Company Limited, Shishi is a wholly foreign-owned enterprise with an operating period of 15 years commencing from 12 February 1993.

2. Tongda Electronic Company Limited, Shishi City is a wholly foreign-owned enterprise with an operating period of 30 years commencing from 20 December 1998.

3. Xiamen Optic Conduct Cable Company Limited is an equity joint venture established by the Group and a joint venture partner in the PRC for a period of 15 years commencing from 10 November 1993. During the year, the Group made additional capital contribution of approximately RMB18,000,000, which resulted in an increase in the percentage of equity attributable to the Company from 65% to 70%.

4. Tongda Ironware (Shenzhen) Company Limited is a wholly foreign-owned enterprise with an operating period of 30 years commencing from 11 April 2002.

5. During the year, the Group acquired the remaining 10% equity interest in Tongda Smart Technology Company Limited from the minority shareholder at a consideration of HK$30,000.

17. INTERESTS IN ASSOCIATES

	Group 2005 HK$'000	2004 HK$'000
Share of net assets	8,919	7,125
Due from associates	7,213	4,467
	16,132	11,592

Particulars of the associates are as follows:

Name	Place of incorporation and operations	Particulars of issued shares held	Percentage of ownership interest attributable to the Group	Principal activities
Meijitsu Tongda (HK) Company Limited	Hong Kong/ Mainland China	Ordinary HK$10,000	50	Manufacture and sale of silk-screen printing products
Tongda Fuso (HK) Company Limited	Hong Kong	Ordinary HK$100,000	30	Investment holding
Tongda Fuso Printing (Shanghai) Company Limited	PRC/Mainland China	Registered RMB10,760,265	30	Manufacture and sale of silk-screen printing products

17. INTERESTS IN ASSOCIATES *(continued)*

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

The directors of the Company do not intend to demand settlement of the amount due until the associates have funds available surplus to those necessary to provide adequate working capital for financing its operating. Accordingly, the amounts are classified as long term receivables.

All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts/financial statements:

	2005	2004
	HK$'000	*HK$'000*
Assets	**50,012**	41,499
Liabilities	**26,886**	20,578
Revenues	**47,103**	36,604
Profits	**18,734**	16,997

18. INTERESTS IN A JOINTLY-CONTROLLED ENTITY

During the year, the Group entered into a sale and purchase agreement with an independent third party to acquire 49% equity interest in Tongda (Xiamen) Technology Limited at a consideration of HK$10,701,600.

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**12,516**	–
Due from a jointly-controlled entity	**560**	–
	13,076	–

18. INTERESTS IN A JOINTLY-CONTROLLED ENTITY *(continued)*

Particulars of the jointly-controlled entity is as follows:

Name	Place of incorporation and operations	Particulars of issued shares held	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Tongda (Xiamen) Technology Limited	PRC/ Mainland China	Registered RMB23,174,700	49	50	49	Manufacturing and sale of precision plastic injection parts

The balance with a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of this balance with a jointly-controlled entity approximates its fair value.

The directors of the Company do not intend to demand settlement of the amount due until the jointly-controlled entity has funds available surplus to those necessary to provide adequate working capital for financing its operation. Accordingly, the amount is classified as a long term receivable.

The jointly-controlled entity has been accounted for using the equity method in these financial statements.

18. INTERESTS IN A JOINTLY-CONTROLLED ENTITY *(continued)*

The followings table illustrates the summarised financial information of the Group's jointly-controlled entity:

Share of the jointly-controlled entity's assets and liabilities:

	2005 *HK$'000*	2004 *HK$'000*
Current assets	7,467	–
Non-current assets	11,512	–
Current liabilities	(6,463)	–
Non-current liabilities	–	–
Net assets	12,516	–

Share of the jointly-controlled entity's results:

	2005 *HK$'000*	2004 *HK$'000*
Total revenue	13,762	–
Total expenses	(11,947)	–
Profit after tax	1,815	–

19. PREPAYMENTS

Group

	Prepaid rental HK$'000	Prepaid premises cost HK$'000	Total HK$'000
31 December 2005			
Costs:			
At beginning of year	1,682	34,528	36,210
Additions	86	3,045	3,131
Transfer from construction in progress *(note 13)*	–	1,000	1,000
Exchange realignment	49	996	1,045
At 31 December 2005	1,817	39,569	41,386
Amortisation:			
At beginning of year	69	1,021	1,090
Amortised during the year	38	755	793
Exchange realignment	2	29	31
At 31 December 2005	109	1,805	1,914
Net book value:			
At 31 December 2005	1,708	37,764	39,472
At 31 December 2004	1,613	33,507	35,120

19. PREPAYMENTS *(continued)*

Group

	Prepaid rental HK$'000	Prepaid premises cost HK$'000	Total HK$'000
31 December 2004			
Costs:			
At beginning of year	3,510	25,875	29,385
Additions	561	7,463	8,024
Transfer to prepaid land lease payments *(note 15)*	(2,389)	–	(2,389)
Transfer from construction in progress *(note 13)*	–	1,190	1,190
At 31 December 2004	1,682	34,528	36,210
Amortisation:			
At beginning of year	35	464	499
Amortised during the year	34	557	591
At 31 December 2004	69	1,021	1,090
Net book value:			
At 31 December 2004	1,613	33,507	35,120
At 31 December 2003	3,475	25,411	28,886

The prepaid rental represents rental of a piece land located in Mainland China. The Group has been granted the right to use the land for a period of 50 years. The prepaid premises cost represents cost for construction of certain premises erected on one piece of the land (the "Land"). The Group has been granted the right to use these premises within the rental period of the Land. As confirmed by legal opinions issued by the Group's Mainland China lawyers in prior years, the lessor of the Land has the right to lease the Land and the leasing agreement entered into by the Group with the lessor is legally enforceable under the PRC laws.

The prepaid rental is amortised on a straight-line basis over the lease term of 50 years. The prepaid premises cost is amortised on a straight-line basis over the remaining lease term of the Land.

20. LONG TERM DEPOSITS

Long term deposits represent deposits paid for the acquisition of certain items of property, plant and equipment.

21. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	72,166	68,189
Work in progress	13,587	11,419
Finished goods	17,919	12,506
	103,672	92,114

22. TRADE AND BILLS RECEIVABLES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Trade receivables	365,858	332,390
Bills receivables	14,159	3,206
	380,017	335,596

It is the general policy of the Group to allow a credit period of three to six months except for the sale of fibre optic cable products on which a longer credit period of three to eighteen months is allowed in certain cases. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted in order to maintain a good relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The carrying amounts of trade and bills receivables approximate their fair values.

22. TRADE AND BILLS RECEIVABLES *(continued)*

An aged analysis of the Group's trade and bills receivables as at 31 December 2005, based on the invoice date, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 3 months	**322,407**	255,727
4 to 6 months, inclusive	**34,458**	54,458
7 to 9 months, inclusive	**17,240**	15,619
10 to 12 months, inclusive	**4,109**	7,134
More than 1 year	**9,121**	6,855
	387,335	339,793
Impairment allowances for bad and doubtful debts	**(7,318)**	(4,197)
	380,017	335,596

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**86,026**	84,416	**260**	177
Time deposit	**17,074**	–	**–**	–
	103,100	84,416	**260**	177

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK$36,147,000 (2004: HK$33,139,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for approximately one week on average depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the time deposits approximate their fair values.

24. TRADE AND BILLS PAYABLES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Trade payables	**143,314**	127,743
Bills payables	**69,899**	71,845
	213,213	199,588

The carrying amounts of trade and bills payables approximate their fair values. The trade payables are non-interest-bearing and are normally settled on 60 to 90 days terms. An aged analysis of the Group's trade and bills payables as at 31 December 2005, based on the invoice date, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 3 months	**192,288**	158,479
4 to 6 months, inclusive	**14,920**	27,846
7 to 9 months, inclusive	**3,056**	8,241
10 to 12 months, inclusive	**449**	2,433
More than 1 year	**2,500**	2,589
	213,213	199,588

25. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

26. INTEREST-BEARING BANK BORROWINGS

		Group		Company	
		2005	2004	**2005**	2004
	Maturity	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current					
Bank loans – unsecured	2006	**97,595**	138,317	**31,250**	–
Bank loans – secured	2006	**3,480**	1,400	**–**	–
Trust receipt loans	2006	**6,495**	12,781	**–**	–
		107,570	152,498	**31,250**	–
Non-current					
Bank loans – secured		**–**	5,903	**–**	–
Bank loans – unsecured	2007 – 2008	**93,750**	–	**93,750**	–
		93,750	5,903	**93,750**	–
		201,320	158,401	**125,000**	–

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Analysed into:				
Bank loans and trust receipt loans repayable:				
Within one year	**107,570**	152,498	**31,250**	–
In the second year	**62,500**	1,399	**62,500**	–
In the third to fifth years, inclusive	**31,250**	2,541	**31,250**	–
Beyond five years	**–**	1,963	**–**	–
	201,320	158,401	**125,000**	–

Other interest rate information:

	2005		2004	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Other secured bank loans	**3,480**	**6,495**	7,303	12,781
Bank loans – unsecured	**66,345**	**125,000**	138,317	–

26. INTEREST-BEARING BANK BORROWINGS *(continued)*

The borrowings of the Company bear interest at floating interest rate.

Notes:

(i) The effective interest rate of the Company's bank loan is HIBOR plus 1.25% and are denominated in Hong Kong Dollars. Other than the Company's bank loan, the remaining bank loans of the Group are denominated in Reminbi with effective interest rates ranging from 3% to 6%.

(ii) As at 31 December 2005, the Group's banking facilities were supported by:

(a) legal charges over an investment property situated in Hong Kong and, the prepaid land lease payments and leasehold buildings in Mainland China owned by the Group (notes 13, 14 and 15);

(b) the pledge of bank deposits of approximately HK$9,340,000 (2004: HK$3,325,000); and

(c) corporate guarantees from the Company and certain of its subsidiaries

The long term bank loans do not bear interest at fixed rates, so the fair value of non-current borrowing are not materially different from their book values. The carrying amounts of short-term borrowings approximate their fair values.

27. DEFERRED TAX

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

Deferred tax liabilities

Group

	Revaluation of property *HK$'000* (Restated)
At 1 January 2004	–
Deferred tax debited to equity during the year (restated)	657
Gross deferred tax liabilties at 31 December 2004 (restated)	657
At 1 January 2005:	
As previously reported	1,764
Prior year adjustment (note 2.4(a))	(1,107)
As restated	657
Deferred tax debited to equity during the year	1,016
Gross deferred tax liabilities at 31 December 2005	1,673

27. DEFERRED TAX *(continued)*

Deferred tax assets

Group

	Accelerated tax depreciation *HK$'000*
At 1 January 2004	–
Deferred tax credited to the income statement during the year	130
Gross deferred tax assets at 31 December 2004	130
At 1 January 2005 and at 31 December 2005	130
Net deferred tax liabilities at 31 December 2004	527
Net deferred tax liabilities at 31 December 2005	1,543

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

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

28. SHARE CAPITAL

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,299,500,000 (2004: 3,299,500,000) ordinary shares of HK$0.01 each	**32,995**	32,995

Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

29. SHARE OPTION SCHEMES

Pursuant to an ordinary resolution passed at the shareholders' meeting of the Company held on 10 June 2002, a new share option scheme of the Company (the "New Scheme") was adopted by the Company. The New Scheme replaced the share option scheme adopted on 7 December 2000 (the "Old Scheme"). After the adoption of the New Scheme, no further options can be granted under the Old Scheme. As at 31 December 2004 and 2005, there were no outstanding share options under the Old Scheme. The New Scheme became effective on 24 June 2002, and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include all directors and any full-time employee of the Company or any of its subsidiaries and any suppliers, consultants or advisers who will provide or have provided services to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme may not exceed 10% of the shares of the Company in issue. The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant.

29. SHARE OPTION SCHEMES *(continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing an aggregate value of over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the official, closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange on the date of each grant, in excess of HK$5 million, are subject to shareholders' approval in a general meeting.

The period within which the options must be exercised will be determined by the board of directors of the Company at its absolute discretion. This period will expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 21 days from the date of the offer, and the amount payable on acceptance of an offer is HK$1.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher 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; (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; and (iii) the nominal value of the share of the Company on the date of grant.

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

29. SHARE OPTION SCHEMES *(continued)*

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

	Number of share options								Price of Company's shares***	
Name or category of participant	At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** *HK$*	At grant date of options *HK$*
Directors										
Mr. Wong Ah Yu	–	13,000,000	–	–	–	13,000,000	26 July 2005	26 July 2005 to 25 July 2015	0.149	0.14
Mr. Wong Ah Yeung	–	32,000,000	–	–	–	32,000,000	26 July 2005	26 July 2005 to 25 July 2015	0.149	0.14
Mr. Choi Wai Sang	–	5,000,000	–	–	–	5,000,000	26 July 2005	26 July 2005 to 25 July 2015	0.149	0.14
	–	50,000,000	–	–	–	50,000,000				
Other employees										
In aggregate	20,000,000	–	–	(20,000,000)	–	–	5 February 2004	5 February 2004 to 31 December 2005	0.25	0.25
	–	2,000,000	–	–	–	2,000,000	26 July 2005	26 July 2005 to 25 July 2015	0.149	0.14
	20,000,000	2,000,000	–	(20,000,000)	–	2,000,000				
	20,000,000	52,000,000	–	(20,000,000)	–	52,000,000				

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

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

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

The fair value of the share options granted during the year was HK$1,075,000.

29. SHARE OPTION SCHEMES *(continued)*

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Dividend yield (%)	6.06
Expected volatility (%)	45.5
Risk-free interest rate (%)	3.186
Expected life of option (year)	10
Closing share price at the date of grant (HK$)	0.140
Exercise price (HK$)	0.149

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 52,000,000 share options outstanding under the New Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 52,000,000 additional ordinary shares of the Company and additional share capital of HK$520,000 and share premium of HK$7,228,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 52,000,000 share options outstanding under the New Scheme, which represented approximately 1.57% of the Company's shares in issue as at that date.

30. RESERVES

(a) Group

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

The capital reserve of the Group represents principally the excess fair values ascribed to the net underlying assets of certain subsidiaries acquired prior to the Group's reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, over the purchase consideration paid therefor.

In accordance with the Macau Commercial Codes, Tongda Overseas Macao Commercial Offshore Limited, a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to a statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund. The statutory reserve may be utilised by the entity for certain restricted purposes including the set off against accumulated losses, if any, arising under certain specified circumstances.

(b) Company

	Share premium account	Share Option reserve	Contributed surplus	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	32,641	–	79,179	84,852	196,672
Issue of shares	42,035	–	–	–	42,035
Exercise of share options	12,532	–	–	–	12,532
Profit for the year	–	–	–	56,662	56,662
Interim 2004 dividend – *note 11*	–	–	–	(23,096)	(23,096)
Proposed final 2004 dividend – *note 11*	–	–	–	(9,899)	(9,899)
At 31 December 2004 and 1 January 2005	87,208	–	79,179	108,519	274,906
Equity-settled share option arrangements	–	1,075	–	–	1,075
Profit for the year	–	–	–	9,972	9,972
Interim 2005 dividend – *note 11*	–	–	–	(16,497)	(16,497)
Special 2005 dividend – *note 11*	–	–	–	(6,599)	(6,599)
Proposed 2005 final dividend – *note 11*	–	–	–	(16,497)	(16,497)
At 31 December 2005	87,208	1,075	79,179	78,898	246,360

30. RESERVES *(continued)*

(b) Company *(continued)*

(i) Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) As at 31 December 2005, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK$245,285,000, subject to the restriction stated in note (i) above.

(iii) The contributed surplus of the Company arose as a result of the Group's reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, and represents the excess of the combined net assets of the subsidiaries then acquired by the Company, over the nominal value of the share capital of the Company issued in exchange therefor.

31. DISPOSAL OF A SUBSIDIARY

On 19 May 2005, the Group entered into a sale and purchase agreement with a third party to dispose of its entire equity interest in Tong Da Metals Co., Ltd. ("Tongda Metal"), a wholly foreign-owned enterprise established under the laws of the PRC with limited liability and the then indirectly wholly-owned subsidiary of the Company, and to assign the Group's loan to Tongda Metal at a total consideration of HK$54,984,645 (the "Disposal"). The Disposal was completed on 5 October 2005.

	2005 *HK$'000*	2004 *HK$'000*
Net assets disposed of:		
Property, plant and equipment	32,237	–
Prepaid land lease payments	825	–
Inventories	11,990	–
Trade and bills receivables	58,620	–
Prepayments, deposits, and other receivables	2,567	–
Cash and bank balances	12,596	–
Trade and bills payable	(27,193)	–
Interest-bearing bank borrowings	(29,808)	
Accruals liabilities and other payables	(5,270)	–
Shareholder's loan	(44,149)	–
	12,415	–
Exchange fluctuation reserve released on disposal	(205)	–
Assignment of a loan	44,149	–
Loss on disposal	(1,374)	–
Consideration	54,985	–
Satisfied by:		
Cash*	12,000	–
Other receivable**	42,985	–
	54,985	–

* The amount was fully received in current year.

** HK$10,790,000 of the other receivable was received in the current year and HK$21,580,000 was received subsequent to the balance sheet date. The remaining balance will be received in 2006 in accordance with the sales and purchase agreement.

31. DISPOSAL OF A SUBSIDIARY *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the Disposal is as follows:

	2005	2004
	HK$'000	*HK$'000*
Cash consideration	12,000	–
Cash and bank balances disposed of	(12,596)	–
	(596)	–
Partial settlement of other receivable	10,790	–
Net inflow of cash and cash equivalents in respect of the Disposal	10,194	–

The subsidiary disposed of in the current year contributed HK$141,070,000 to the Group's turnover and a loss of HK$216,000 to the profit attributable to ordinary equity holders of the Company for the year ended 31 December 2005.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(i) During the year, a dividend of HK$500,000 receivable from an associate was settled through the current account with that associate.

(ii) During the year, the Group disposed of a prepaid land lease payment to a third party at a net book value of approximately HK$1,254,000. The amount has not been settled as at 31 December 2005 and was included in the balance of prepayments, deposits and other receivables.

(iii) The Group disposed of a subsidiary with a consideration of HK$54,985,000 (note 31). Part of the consideration of HK$32,195,000 has not been settled as at 31 December 2005 and was included in the balance of prepayments, deposits and other receivables.

33. CONTINGENT LIABILITIES

As at the balance sheet date, the Group had contingent liabilities in respect of outstanding irrevocable letters of credit of HK$44.0 million (2004: HK$23.4 million).

In addition, the Company had contingent liabilities in respect of corporate guarantees provided for banking facilities for certain subsidiaries and an associate, which were utilised to the extent of HK$68.1 million (2004: HK$50.8 million) at the balance sheet date.

Save as disclosed above, neither the Group, nor the Company, had any significant contingent liabilities at the balance sheet date.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms of three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2005 *HK$'000*	2004 *HK$'000*
Within one year	853	332
In the second to fifth years, inclusive	1,208	–
	2,061	332

34. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain of its use of land under operating lease arrangements which are negotiated for a lease term of 50 years. In addition, the Group leases certain of its offices properties under operating lease arrangements. Leases for properties are negotiated for terms of over five years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**145**	299
In the second to fifth years, inclusive	**601**	594
After five years	**9,038**	9,240
	9,784	10,133

35. COMMITMENTS

In addition to the operating lease commitments set out in note 34(b) above, the Group had the following capital commitments contracted but not provided for at the balance sheet date:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Purchases of property, plant and equipment	**10,615**	16,393
Construction of factory buildings in Mainland China	**8,845**	–
An investment in a subsidiary	**22,579**	24,627
	42,039	41,020

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

36. RELATED PARTIES TRANSACTIONS

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

		Group	
		2005	2004
	Notes	*HK$'000*	*HK$'000*
Associates:			
Sale of products	(i)	13,434	8,077
Purchases of raw materials and finished goods	(ii)	1,759	1,769
Technology consultancy fee	(iii)	600	600
Rental income	(iv)	499	320
A jointly-controlled entity:			
Purchases of raw materials and finished goods	(ii)	577	–
Rental income	(iv)	522	–
Rental income paid to a minority shareholder of a subsidiary	(v)	–	307
Sales of finished goods to a related company in which a director of the Company is a shareholder	(vi)	923	271

36. RELATED PARTIES TRANSACTIONS *(continued)*

Notes:

(i) The sales to the associates were made according to the terms similar to those offered to the Group's non-related customers.

(ii) The purchases from the associates and a jointly-controlled entity were made according to the terms similar to those offered to the Group's non-related suppliers.

(iii) The technology consultancy fee was received from associates for the provision of technology support provided by the Group charged at HK$50,000 (2004: HK$50,000) per month.

(iv) The rental income received from an associate and a jointly-controlled entity represented the leasing of factory premises and staff quarters of the Group located at Shenzhen, the PRC and Xiamen, the PRC, respectively.

(v) During the year ended 31 December 2004, the Group paid rental expenses of HK$307,000 to a minority shareholder of a subsidiary. The rental expenses in last year were determined by the directors of the Group and the minority shareholder with reference to the then prevailing market conditions.

(vi) During the year, the Group sold finished goods of approximately HK$923,000 (2004: HK$271,000) to 福建石獅通達電機有限公司, a company owned as to 7.5% by Mr. Wang Ya Nan, a director of the Company. The selling price was determined with reference to the published prices offered to the Group's non-related customers.

(b) Other transactions with a related party

福建石獅市蚶江水頭華聯工藝廠, a company in which Mr. Wong Ah Yeung, a director of the Company, is interested as a beneficial shareholder, provided a guarantee for banking facilities granted to the Group of HK$5,393,000 as at 31 December 2004.

(c) Outstanding balances with related parties

Details of the Group's balances with its associates and jointly-controlled entity as at the balance sheet date are disclosed in notes 17 and 18 to the financial statements, respectively.

(d) Compensation of key management personnel of the Group:

	2005 *HK$'000*	2004 *HK$'000*
Short term employee benefits	**4,885**	4,776
Post-employment benefits	**198**	198
Share-based payments	**1,075**	–
Total compensation paid to key management personnel	**6,158**	4,974

Further details of directors' emoluments are included in note 8 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts that the Group maintain about 60% of its interest-bearing borrowings at floating interest rate. To minimise possible interest rate exposure, the floating interest rate is usually fixed by the Group on a quarterly basis. For those short term loans, a fixed interest rate for a period of 90 days to 120 days is maintained.

Foreign currency risk

The Group carries on its trading transactions mainly in Hong Kong dollars and Reminbi. Approximately 70% (2004: 75%) of the Group's sales and purchases transactions are denominated in Reminbi while the remaining balance of sales and purchases transactions denominated mainly in Hong Kong dollars. As the foreign currencies risks generated from the sales and purchases can be set off with each other, the foreign currency risk is minimal for the Group. It is the policy of the Group to continue maintaining the balance of it sales and purchases in the same currency.

Considering the appreciation of Reminbi, the Group will maintain a comparatively higher level of Hong Kong dollars borrowings than Reminbi borrowings to minimise the possible currency risk therefrom.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and on an individual basis. Each of the customers has been attached with a trading limit and any excess to the limit must be approved by the general manager of the operation unit. Under the tight control of the credit term and detailed assessment to the creditworthiness of individual customers, the Group's exposure to bad debts is maintained as minimal.

There is no other credit risk of the Group under other financial assets such as cash and cash equivalents.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking loans and other banking facilities such as trust receipt loans. To improve the liquidity of the Group, it is the Group's policy is to maintain more than 50% of its total bank loans at a maturity date more than 12 months. As at 31 December 2005, the Group's interest-bearing bank loans with maturity date more than 12 months is 47% (2004: 37%) of the total bank loans.

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

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