Notes to Financial Statements

1. CORPORATE INFORMATION

Peaktop International Holdings Limited is a limited liability company incorporated in Bermuda.

The principal place of business of the Company is located at 16th Floor, Tower II, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. During the year, the Group was involved in the design, manufacture and sale of home, garden and plastic decorative products.

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 properties and certain buildings, which have been measured at fair value. A disposal group and non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell as further explained in note 2.5. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
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
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes - Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 31, 33, 37, 38, HKFRS 2 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company.

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

In prior years, leasehold land and buildings held for own use were stated at cost or 2004 valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land 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 term.

This change in accounting policy has resulted in reverse of asset revaluation surplus in respect of land element. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet and the statement of changes in equity have been restated to reflect the reverse of asset revaluation surplus and the reclassification of the leasehold land. The effects of the above changes are summarised in note 2.4 to the financial statements.

(b) HKAS 32 and HKAS 39 - Financial Instruments

(i) Equity securities

In prior years, the Group classified its unlisted equity securities as investments securities, which were held for non-trading purposes and were stated at their cost less any impairment losses, on an individual basis. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$4,500,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at cost less any impairment losses as the fair value of unlisted equity securities held by the Group cannot be reliably measured.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

(b) HKAS 32 and HKAS 39 - Financial Instruments *(continued)*

(ii) Derecognition

In prior years, the Group's discounted bills with recourse were treated as contingent liabilities. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. Upon adoption of HKAS 39, the Group's discounted bills with recourse as at 31 December 2005 have been accounted for as collateralised bank advances as the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively on or after 1 January 2005.

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

(c) HKAS 40 - Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, 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. The adoption of HKAS 40 has had no effect on the opening balances as at 1 January 2005 and, accordingly, the comparative amount has not been restated. The effects of the above changes are summarised in note 2.4 to the financial statements.

(d) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

(d) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets *(continued)*

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

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

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

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

(e) HKFRS 5 - Non-current Assets Held for Sale and Discontinued Operations

HKFRS 5 requires a component of the Group to be classified as disposal group/non-current assets held for the sale when the criteria to be classified as held for sale have been met or when that component of the Group has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The principal impact of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than it would be under SSAP 33 due to the stricter criteria in HKFRS 5.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with HKFRS 5, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

(f) HK(SIC)-Int 21 - Income Taxes - Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The adoption of the HK(SIC)-Int 21 has had no effect on the financial information of the Group at both 1 January 2005 and 31 December 2005.

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, in 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 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

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. As at the balance sheet date, certain of the banking facilities and finance leases granted to subsidiaries are guaranteed by the Company (note 37(a)). The Group has already commenced on assessment of the impact of this revised HKFRS but is not yet in a position state whether this revised HKFRS would have a significant impact on its results of operations and financial position.

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

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

(a) Effect on the consolidated balance sheet

	Effect of adopting					
At 1 January 2005	HKAS 1# and HKAS 40*	HKAS 17#	HKASs 32# and 39*	HKFRS 3*	HKFRS 5*	
Effect of new policies (Increase/(decrease))	Presentation and investment property	Prepaid land lease payments	Change in classification of equity investments /recognition of discounted bills	Discontinuation of amortisation of goodwill/ derecognition of negative goodwill	Non-current assets and a disposal group classified as held for sale	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets						
Property, plant and equipment	(17,758)	(58,778)	–	–	–	(76,536)
Investment properties	17,758	–	–	–	–	17,758
Prepaid land lease payments	–	56,152	–	–	–	56,152
Negative goodwill	–	–	–	61	–	61
Available-for-sale equity investments	–	–	4,500	–	–	4,500
Investments securities	–	–	(4,500)	–	–	(4,500)
Prepayments, deposits and other receivables	–	1,382	–	–	–	1,382
						(1,183)
Liabilities/equity						
Asset revaluation reserve	–	(1,244)	–	–	–	(1,244)
Retained profits	–	–	–	61	–	61
						(1,183)
At 31 December 2005						
Assets						
Property, plant and equipment	(17,758)	(52,066)	–	–	(76,288)	(146,112)
Investment properties	32,000	–	–	–	–	32,000
Prepaid land lease payments	–	49,683	–	–	(9,587)	40,096
Goodwill/negative goodwill	–	–	–	667	(307)	360
Interests in associates	–	–	–	–	(127)	(127)
Available-for-sale equity investments	–	–	4,287	–	(181)	4,106
Investments securities	–	–	(4,287)	–	–	(4,287)
Deferred tax assets	–	–	–	–	(10,379)	(10,379)
Accounts and bills receivable	–	–	12,591	–	(27,150)	(14,559)
Prepayments, deposits and other receivables	–	1,139	–	–	(16,533)	(15,394)
Inventories	–	–	–	–	(80,592)	(80,592)
Cash and cash equivalents	–	–	–	–	(1,074)	(1,074)
Assets of a disposal group classified as held for sale	–	–	–	–	199,201	199,201
Non-current asset classified as held for sale	–	–	–	–	21,511	21,511
						24,750
Liabilities/equity						
Accounts and bills payable	–	–	–	–	(18,268)	(18,268)
Other payables and accruals	–	–	–	–	(8,493)	(8,493)
Interest-bearing bank borrowings	–	–	12,591	–	(96,768)	(84,177)
Tax payable	–	–	–	–	(245)	(245)
Inter-company balances	–	–	–	–	(53,808)	(53,808)
Liabilities directly associated with the assets classified as held for sale	–	–	–	–	177,582	177,582
Asset revaluation reserve	–	(1,244)	–	–	–	(1,244)
Retained profits	14,242	–	–	667	(1,506)	13,403
						24,750

* Adjustments taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

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

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

The adoption of HKFRS 3 has resulted in an increase in retained profits as at 1 January 2005 by HK$61,000 (note 35). The adoption of HKAS 17 has resulted in a decrease in the asset revaluation reserve as at 1 January 2005 and 2004 by HK$1,244,000 (note 35).

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

		Effect of adopting		
	HKAS 40	**HKFRS 3**	**HKFRS 5**	
Effect of new policies	**Surplus on revaluation of investment properties**	**Discontinuation of amortisation of goodwill /recognition of negative goodwill as income**	**Non-current asset and a disposal group classified as held for sale**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005				
Change in fair value of investment properties	14,242	–	–	14,242
Decrease/(increase) in other expenses	–	616	(1,776)	(1,160)
Decrease in other income and gains	–	(10)	–	(10)
Decrease in administrative expenses	–	–	270	270
Total increase/(decrease) in profit	14,242	606	(1,506)	13,342
Increase/(decrease) in basic earnings per share	HK1.76 cents	HK0.07 cent	HK(0.19) cent	HK1.64 cents
Increase in diluted earnings per share	N/A	N/A	N/A	N/A

The changes in accounting policies did not have material 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 interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are 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, 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Goodwill

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

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005
Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Excess over the cost of business combinations *(applicable to business combinations for which the agreement date is on or after 1 January 2005)*

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

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, investment properties, goodwill and non-current assets/disposal groups classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(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 benefit 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. When an item of property, plant and machinery is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

Freehold land	Not depreciated
Buildings	20 to 40 years or over the lease terms, whichever is shorter
Leasehold improvements	3 to 10 years or over the lease terms, whichever is shorter
Plant and machinery	10 years
Furniture, fixtures, equipment and motor vehicles	5 years
Moulds	2 years

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

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.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties, deferred tax assets, and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

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

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years.

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 it 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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding two to five years, commencing from the date when the products are put into commercial production.

Deferred expenses

Payments made to customers as consideration for their long term commitments to purchase exclusively from the Group are recorded as deferred expenses. The deferred expenses are capitalised only when it is expected that future economic benefits will flow to the Group.

Deferred expenses are stated at cost less any impairment losses and are amortised, using the straight-line method, over the terms of the underlying contracts.

Leases

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

Assets required through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

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.

Investments and other financial assets

Applicable to the year ended 31 December 2004:
The Group classified its equity investments, other than subsidiaries and associates, as investments securities.

Investments securities
Investments securities are securities which are intended to be held on a continuing basis for an identified long term purpose and are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the income statement for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the income statement to the extent of the amounts previously charged.

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

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

The Group did not held financial assets at fair value through profit or loss nor held-to-maturity investments.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2005: *(continued)*

Loans and receivables

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

Available-for-sale financial assets

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

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

Fair value

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

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

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

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.

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)

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

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

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

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

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

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

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay 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.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest-bearing loans and borrowings

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

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

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

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

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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

(c) 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.

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes and other retirement benefits

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 contribution vesting fully, in accordance with the rules of the MPF Scheme.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share option scheme

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 ("equity-settled transactions").

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 binomial model. 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, if applicable.

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Foreign currencies

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

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at 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 a separate component of equity, the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING 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.

Estimation uncertainty

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

Impairment of property, plant and equipment

The Group conducts impairment reviews of property, plant and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. In 2005, after reviewing the business environment as well as the Group's objectives and past performance, management concluded that there was no impairment loss for property, plant and equipment.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK$3,916,000 (2004: HK$4,223,000). More details are given in note 18.

Impairment of a disposal group

Subsequent to the balance sheet date on 28 March 2006 the Group entered into a sales and purchase agreement with an independent third party to dispose its 81% equity interest in Heissner AG for a cash consideration of approximately Euro2 million (equivalent to approximately HK$18 million). Pursuant to the agreement, the consideration of the transaction ranged from Euro1 million to Euro2.5 million, depending on the cumulative earning before interest and tax of Heissner AG in the coming five years ending 31 August 2010. The cash consideration of Euro2 million applied for the impairment assessment is based on the profit forecast prepared by the management according to their best current estimation.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment. Geographical segments based on the location of customers and assets are chosen as the primary reporting format because it is considered by management to be more relevant to the Group in making operating and financial decisions.

4. SEGMENT INFORMATION *(continued)*

Segment assets consist primarily of accounts receivable and exclude fixed assets, intangible assets, goodwill, investments, inventories, other receivables and operating cash.

An analysis of assets and capital expenditure based on the geographical location of assets is also presented as additional information.

(a) Geographical segments by location of customers

	United States of America 2005 HK$'000	Europe 2005 HK$'000	Asia Pacific 2005 HK$'000	Others 2005 HK$'000	Consolidated 2005 HK$'000
Turnover	**723,553**	**292,123**	**144,541**	**1,000**	**1,161,217**
Segment results	**54,952**	**7,045**	**6,591**	**231**	**68,819**
Unallocated costs					**(72,720)**
Change in fair value of investment properties					**14,242**
Finance costs					**(28,514)**
Loss before tax					**(18,173)**
Tax					**648**
Loss for the year					**(17,525)**
Segment assets	**77,661**	**5,061**	**37,055**	**–**	**119,777**
Unallocated assets					**813,853**
Total assets					**933,630**
Unallocated liabilities					**696,075**
Other segment information:					
Capital expenditure (unallocated)					
– Property, plant and equipment					**57,560**
– Intangible assets					**301**
Amortisation of intangible assets (unallocated)					**10,611**
Depreciation (unallocated)					**43,541**
Change in fair value of investment properties (unallocated)					**14,242**
Provision for impairment	**1,233**	**1,185**	**–**	**–**	**2,418**

4. SEGMENT INFORMATION *(continued)*

(a) Geographical segments by location of customers *(continued)*

	United States of America 2004 HK$'000	Europe 2004 HK$'000	Asia Pacific 2004 HK$'000	Others 2004 HK$'000	Consolidated 2004 HK$'000 (Restated)
Turnover	690,687	311,304	130,800	2,914	1,135,705
Segment results	74,385	14,815	14,192	587	103,979
Unallocated costs					(72,264)
Finance costs					(21,832)
Profit before tax					9,883
Tax					(3,146)
Profit for the year					6,737
Segment assets	69,931	28,437	37,008	–	135,376
Unallocated assets					754,937
Total assets					890,313
Unallocated liabilities					642,516
Other segment information:					
Capital expenditure (unallocated)					
– Property, plant and equipment					75,836
– Intangible assets					17,038
Amortisation of intangible assets (unallocated)					20,581
Depreciation (unallocated)					34,788
Provision for impairment	647	4,095	307	–	5,049

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments by location of assets

	Total assets 2005 HK$'000	**Capital expenditure 2005 HK$'000**
Asia Pacific	**566,040**	**46,156**
Europe	**258,687**	**8,088**
United States of America	**97,896**	**3,316**
	922,623	**57,560**
Unallocated assets	**11,007**	**301**
	933,630	**57,861**

	Total assets 2004 HK$'000 (Restated)	Capital expenditure 2004 HK$'000
Asia Pacific	556,068	63,393
Europe	228,196	7,288
United States of America	83,153	5,155
	867,417	75,836
Unallocated assets	22,896	17,038
	890,313	92,874

4. SEGMENT INFORMATION *(continued)*

(c) Business segments

	Outdoor decoration 2005 HK$'000	Indoor decoration 2005 HK$'000	Plastic injection 2005 HK$'000	Others 2005 HK$'000	Consolidated 2005 HK$'000
Segment revenue:					
Turnover	**634,621**	**398,068**	**117,034**	**11,494**	**1,161,217**
Segment assets	**632,487**	**180,676**	**57,491**	**17,632**	**888,286**
Unallocated assets					**45,344**
Total assets					**933,630**
Capital expenditure	**32,071**	**19,387**	**5,979**	**424**	**57,861**

	2004 HK$'000	2004 HK$'000	2004 HK$'000	2004 HK$'000	2004 HK$'000 (Restated)
Segment revenue:					
Turnover	522,361	523,171	79,436	10,737	1,135,705
Segment assets	529,760	182,050	81,775	37,142	830,727
Unallocated assets					59,586
Total assets					890,313
Capital expenditure	60,496	15,609	16,370	399	92,874

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of discounts and returns.

An analysis of other income and gains is as follows:

	2005 HK$'000	2004 HK$'000
Other income		
Bank interest income	**1,716**	1,150
Gross rental income	**1,305**	1,294
Recovery of bad debts	**1,181**	815
Sale of scrap materials	**–**	909
Others	**4,193**	3,266
	8,395	7,434
Gains		
Foreign exchange differences, net	**–**	5,255
Negative goodwill recognised as income (note 18)	**–**	10
Gain on disposal of a long term investment	**–**	851
	–	6,116
Other income and gains	**8,395**	13,550

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold*		**764,424**	747,783
Employee benefits expense (excluding directors' remuneration - note 8):			
Salaries and wages		**167,987**	162,978
Pension scheme contributions		**4,044**	4,404
Directors' remuneration	8	**9,499**	8,815
Depreciation	15	**43,541**	34,788
Auditors' remuneration		**3,216**	3,375
Foreign exchange differences, net		**7,168**	(5,255)
Amortisation of intangible assets	19	**10,611**	20,581
Impairment on intangible assets**	19	**491**	–
Write-off of intangible assets**		**–**	4
Amortisation of goodwill**		**–**	658
Loss on disposal of items of property, plant and equipment**		**341**	2,164
Provision for impairment**		**2,418**	5,049
Loss on disposal of subsidiaries, net**		**–**	2,902
Impairment on interest in an associate		**255**	–
Impairment on a disposal group**		**1,776**	–
Minimum lease payments under operating leases in respect of land and buildings		**10,999**	9,455
Write-down of inventories to net realisable value		**1,314**	–

* The "Cost of inventories sold" includes HK$116,948,000 (2004: HK$99,677,000) relating to staff costs, depreciation, amortisation of intangible assets and operating lease rentals in respect of land and buildings, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

** These expenses are included in "Other expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group 2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts wholly repayable:		
Within five years	**28,090**	19,513
Over five years	**–**	1,961
Interest on finance leases	**424**	553
Total interest	**28,514**	22,027
Less: Interest capitalised	**–**	(195)
	28,514	21,832

8. DIRECTORS' REMUNERATION

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

	Group 2005 HK$'000	2004 HK$'000
Fees	**540**	445
Other emoluments:		
Salaries, allowances and benefits in kind	**8,905**	7,981
Pension scheme contributions	**54**	389
	8,959	8,370
	9,499	8,815

8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

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

	2005 HK$'000	2004 HK$'000
Mr. Andree Halim	–	36
The Hon. Bernard Charnwut Chan	180	180
Mr. Goh Gen Cheung	180	180
Mr. Ma Chiu Cheung, Andrew	180	49
	540	445

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

(b) Executive directors and a non-executive director

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005			
Executive directors:			
Mr. Lin Chun Kuei	2,122	12	2,134
Mr. Andree Halim	398	–	398
Mr. Ng Kin Nam	398	12	410
Mr. Li Chien Kuan	1,412	10	1,422
Mr. Lin Chun Fu	1,371	–	1,371
Mr. Graeme Stanley Pope	1,401	–	1,401
Mr. Guo Yah Taur	296	–	296
Ms. Lin Huang Su Feng	620	10	630
Mr. Lin Wei-Hung	584	–	584
Mr. Daniel Halim	101	5	106
Mr. Cheung Kwok Ping	101	5	106
	8,804	54	8,858
Non-executive director:			
Mr. Tan Kong King	101	–	101
	8,905	54	8,959

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director *(continued)*

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2004			
Executive directors:			
Mr. Lin Chun Kuei	2,231	12	2,243
Mr. Andree Halim	429	–	429
Mr. Ng Kin Nam	491	12	503
Mr. Li Chien Kuan	1,521	12	1,533
Mr. Lin Chun Fu	1,427	–	1,427
Mr. Graeme Stanley Pope	1,033	346	1,379
Mr. Guo Yah Taur	406	–	406
Mr. Kam Wing Leung	224	7	231
Mr. He Jing Guang	125	–	125
Dr. Gunter Michael Denk	94	–	94
	7,981	389	8,370

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

9. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,673**	820
Pension scheme contributions	**–**	12
	3,673	832

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

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

10. TAX

No Hong Kong profits tax has been provided as the Group does not derive any assessable profit arising in Hong Kong during the year. In the prior year, Hong Kong profits tax was provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during that 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.

	Group	
	2005	2004
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**–**	802
Elsewhere	**254**	1,963
Deferred, net - note 32	**(947)**	(561)
	(693)	2,204
Underprovision in prior years:		
Elsewhere	**45**	942
Total tax charge/(credit) for the year	**(648)**	3,146

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

	2005	2004
	HK$'000	HK$'000
Profit/(loss) before tax	**(18,173)**	9,883
Tax at domestic rates applicable to profits/(losses) in the countries concerned	**(3,578)**	5,213
Lower tax rate for specific provinces in Mainland China	**(145)**	(737)
Tax holiday	**(1,639)**	(2,629)
Adjustments in respect of current tax of previous periods	**45**	942
Income not subject to tax	**(42,152)**	(49,546)
Expenses not deductible for tax	**46,602**	51,466
Unrecognised tax losses	**3,504**	5,725
Tax losses utilised from previous years	**(2,337)**	(6,562)
Deferred tax liabilities principally arising from accelerated tax depreciation	**(312)**	(410)
Deferred tax assets arising from losses brought forward recognised during the year	**(636)**	(151)
Others	**–**	(165)
Tax charge/(credit) at effective rate	**(648)**	3,146

10. TAX *(continued)*

In accordance with the relevant approval documents issued by the People's Republic of China (the "PRC") tax authorities, certain subsidiaries of the Group operating in the PRC are exempted from the PRC corporate income tax for the first two profitable calendar years of operation and thereafter are eligible for a 50% relief from the PRC corporate income tax for the following three years.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$20,617,000 (2004: HK$2,348,000) (note 35).

12. DISPOSAL GROUP

Subsequent to the balance sheet date on 28 March 2006, the Group entered into a sales and transfer of shares agreement with an independent third party to dispose its 81% equity interest of Heissner AG, a subsidiary of the Company, which engages in the distribution of gardening and water gardening products in Europe. The directors of the Company consider that the disposal of Heissner AG could reduce the Group's bank borrowings and further enhance the liquidity of the Group. The completion date for the disposal of Heissner AG is due on 31 August 2006. As at 31 December 2005, final negotiations for the sale were in progress and Heissner AG was classified as a disposal group held for sale.

The results of Heissner AG for the year are presented below:

	2005 HK$'000
Revenue	264,046
Expenses	(253,133)
Finance costs	(9,145)
Profit before tax from the disposal group	1,768
Tax	574
Profit for the year from the disposal group	2,342

12. DISPOSAL GROUP *(continued)*

The major classes of assets and liabilities of Heissner AG classified as held for sale as at 31 December 2005 are as follows:

	2005 HK$'000
Assets	
Property, plant and equipment	**63,165**
Interests in associates	**127**
Available-for-sales equity investments	**181**
Deferred tax assets	**10,379**
Accounts and bills receivable	**27,150**
Prepayments, deposits and other receivables	**16,533**
Inventories	**80,592**
Cash and cash equivalents	**1,074**
Assets classified as held for sale	**199,201**
Liabilities	
Bank loans	**96,768**
Amount due to fellow subsidiaries	**53,808**
Accounts and bills payable	**18,268**
Other payables and accruals	**8,493**
Tax payable	**245**
Liabilities directly associated with the assets classified as held for sale	**177,582**
Net assets directly associated with the disposal group	**21,619**

At 31 December 2005, freehold land and buildings amount to HK$51,806,000 included in disposal group above were pledged to secure general banking facilities granted to the disposal group. Floating charges over certain of the inventories and accounts and bills receivable, which are included in assets of a disposal group above, of approximately HK$64,385,000 and HK$11,000,000, respectively, were also pledged to secure general banking facilities granted to the disposal group.

The amount due from a disposal group is unsecured, interest free and has repayment terms of 180 days.

13. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year (2004: Nil).

14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share is based on the net profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the capitalisation of loans from directors during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2005 and 2004 have not been disclosed as no diluting events existed during these years.

The calculations of basic earnings/(loss) per share are based on:

	2005	2004
	HK$'000	HK$'000
Earnings		
Net profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**(16,724)**	6,421

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**809,460,000**	730,938,000

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Moulds HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost or valuation	204,781	52,280	72,277	134,587	14,448	15,919	494,292
Accumulated depreciation	(28,489)	(35,987)	(29,225)	(107,769)	(10,200)	–	(211,670)
Net carrying amount	176,292	16,293	43,052	26,818	4,248	15,919	282,622
At 1 January 2005, net of accumulated depreciation	176,292	16,293	43,052	26,818	4,248	15,919	282,622
Additions	309	1,678	8,878	30,791	6,852	9,052	57,560
Assets included in a disposal group *(note 12)*	(51,806)	–	(1,082)	(10,234)	–	(43)	(63,165)
Non-current asset classified as held for sale*	(11,922)	–	–	–	–	–	(11,922)
Deficit on revaluation	(12,616)	–	–	–	–	–	(12,616)
Disposals	(525)	–	(1,806)	(265)	(402)	(168)	(3,166)
Depreciation provided during the year	(5,828)	(4,729)	(8,461)	(19,706)	(4,817)	–	(43,541)
Impairment provided during the year	–	–	–	(1,469)	–	–	(1,469)
Transfers	23,961	–	–	–	–	(23,961)	–
Exchange realignment	(7,355)	416	878	(1,745)	162	170	(7,474)
At 31 December 2005, net of accumulated depreciation	110,510	13,658	41,459	24,190	6,043	969	196,829
At 31 December 2005:							
Cost or valuation	132,678	55,474	75,093	55,463	21,259	969	340,936
Accumulated depreciation	(22,168)	(41,816)	(33,634)	(31,273)	(15,216)	–	(144,107)
Net carrying amount	110,510	13,658	41,459	24,190	6,043	969	196,829
Analysis of cost or valuation:							
At cost	54,677	55,474	75,093	55,463	21,259	969	262,935
At 31 December 2005 valuation	78,001	–	–	–	–	–	78,001
	132,678	55,474	75,093	55,463	21,259	969	340,936

* On 17 August 2005, the Group entered into a provisional agreement with an independent third party in relation to the disposal of a property located in Hong Kong for a cash consideration of HK$43,000,000. Accordingly, the building of HK$11,922,000 included above and the prepaid land lease payments of HK$9,589,000 (note 17) was classified as non-current asset held for sale at its then net carrying value of HK$21,511,000. On 15 September 2005, the formal sale and purchase agreement was signed and the transaction is expected to be completed in August 2006.

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

Group

	Freehold land and buildings HK$'000 (Restated)	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Moulds HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2004							
At 1 January 2004:							
Cost or valuation	180,282	45,717	77,700	121,049	9,385	4,524	438,657
Accumulated depreciation	(22,254)	(31,999)	(26,876)	(94,285)	(7,719)	–	(183,133)
Net carrying amount	158,028	13,718	50,824	26,764	1,666	4,524	255,524
At 1 January 2004, net of accumulated depreciation	158,028	13,718	50,824	26,764	1,666	4,524	255,524
Additions	1,794	5,752	12,286	13,271	5,176	37,557	75,836
Disposals	–	–	(2,072)	(1,226)	–	–	(3,298)
Disposal of a subsidiary *(note 36)*	–	(204)	(10,680)	(1,916)	–	–	(12,800)
Depreciation provided during the year	(7,361)	(5,028)	(8,346)	(11,460)	(2,593)	–	(34,788)
Transfers	24,133	2,022	–	–	–	(26,155)	–
Transfer to investment properties *(note 16)*	(6,732)	–	–	–	–	–	(6,732)
Exchange realignment	6,430	33	1,040	1,385	(1)	(7)	8,880
At 31 December 2004, net of accumulated depreciation	176,292	16,293	43,052	26,818	4,248	15,919	282,622
At 31 December 2004:							
Cost or valuation	204,781	52,280	72,277	134,587	14,448	15,919	494,292
Accumulated depreciation	(28,489)	(35,987)	(29,225)	(107,769)	(10,200)	–	(211,670)
Net carrying amount	176,292	16,293	43,052	26,818	4,248	15,919	282,622
Analysis of cost or valuation:							
At cost	53,443	52,280	72,277	134,587	14,448	15,919	342,954
At 31 December 2004 valuation	151,338	–	–	–	–	–	151,338
	204,781	52,280	72,277	134,587	14,448	15,919	494,292

The net book value of the property, plant and equipment of the Group held under finance leases included in the total amount of plant and machinery at 31 December 2005 amounted to HK$7,380,000 (2004: HK$11,514,000).

In the prior year, prior to its transfer to land and buildings, the carrying amount of construction in progress included a capitalised interest of HK$195,000.

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

The Group's buildings in Hong Kong and Mainland China were revalued individually on an open market, existing use basis at 31 December 2005 by RHL Appraisal Ltd. ("RHL"), independent professionally qualified valuers. There was no material surplus or deficit arising therefrom. The freehold land in Germany was revalued on an open market existing use basis by Dipl.-Ing. Andreas Staubach, independent professionally qualified valuers. A revaluation deficit of HK$6,452,000 has been debited to the relevant asset revaluation reserve, being the deficit on revaluation of HK$12,616,000 less the deferred tax arising thereon of HK$4,629,000 (note 32) and exchange realignment of HK$1,535,000 (note 35).

For the buildings in Mainland China, the directors considered that their carrying amounts with reference to a valuation performed by RHL on a depreciated replacement cost basis at 31 December 2005, did not differ materially from their fair values as at 31 December 2005.

Had the Group's revalued freehold land and buildings been carried at historical cost less accumulated depreciation, after the reclassification of the freehold land and buildings to a disposal group held for sale in 2005, their carrying amounts would have been approximately HK$68,683,000 (2004: HK$114,155,000).

The Group's freehold land and buildings with a net book value of HK$104,127,000 (2004: HK$185,054,000) were pledged to the Group's bankers to secure banking facilities granted to the Group, as detailed in note 27 to the financial statements. In the prior year, construction in progress with a net book value of HK$6,243,000 was also pledged to secure the Group's banking facilities (note 27).

At 31 December 2005, the Group was still in the process of obtaining the land and properties certificates for certain of its leasehold land and buildings with an aggregate carrying value of approximately HK$29,058,000 (2004: HK$29,787,000).

The Group's freehold land and buildings included above are held in the Mainland China under medium term leases.

16. INVESTMENT PROPERTIES

	2005 HK$'000	2004 HK$'000
Carrying amount at 1 January	**17,758**	11,026
Net profit from a fair value adjustment	**14,242**	–
Transfer from an owner-occupied property *(note 15)*	**–**	6,732
Carrying amount at 31 December	**32,000**	17,758

The Group's investment properties are situated in Hong Kong and are held under the medium term leases.

The Group's investment properties were revalued on 31 December 2005 by RHL, independent professionally qualified valuers, at HK$32,000,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

At 31 December 2005, the Group's investment properties with a value of HK$32,000,000 (2004: HK$17,758,000) were pledged to secure general banking facilities granted to the Group *(note 27)*.

17. PREPAID LAND LEASE PAYMENTS

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 (note 2.2(a) and 2.4)	**57,534**	56,591
As restated	**57,534**	56,591
Additions	**2,785**	2,115
Recognised during the year	**(1,382)**	(1,246)
Non-current asset classified as held for sale	**(9,589)**	–
Exchange realignment	**1,474**	74
Carrying amount at 31 December	**50,822**	57,534
Current portion included in prepayments, deposits and other receivables	**(1,139)**	(1,382)
Non-current portion	**49,683**	56,152

The leasehold land is held under medium term lease and is situated in Hong Kong and Mainland China.

At 31 December 2005, the Group's leasehold land with a value of HK$23,571,000 (2004: HK$20,670,000) was pledged to secure general banking facilities granted to the Group (note 27).

As at 31 December 2005, the Group was still in the process of obtaining the land certificates for certain of its leasehold land with an aggregate carrying value of approximately HK$35,052,000 (2004: HK$34,780,000).

18. GOODWILL/NEGATIVE GOODWILL

Group

	Goodwill	Negative goodwill	Total
	HK$'000	HK$'000	HK$'000
31 December 2005			
At 1 January 2005:			
Cost as previously reported	7,356	(100)	7,256
Effect of adopting HKFRS 3 (note 2.2(d))	(3,133)	100	(3,033)
Cost as restated	4,223	–	4,223
Accumulated amortisation as previously reported	3,133	(39)	3,094
Effect of adopting HKFRS 3 (note 2.2(d))	(3,133)	39	(3,094)
Accumulated amortisation as restated	–	–	–
Net carrying amount	4,223	–	4,223
Cost at 1 January 2005, net of accumulated amortisaton	4,223	–	4,223
Attributable to a disposal group (note 2.4)	(307)	–	(307)
Cost and carrying amount at 31 December 2005	3,916	–	3,916
31 December 2004			
At 1 January 2004:			
Cost	7,882	(100)	7,782
Accumulated amortisation	(2,875)	29	(2,846)
Net carrying amount	5,007	(71)	4,936
Cost at 1 January 2004, net of accumulated amortisation	5,007	(71)	4,936
(Amortisation provided)/recognised as income during the year	(658)	10	(648)
Disposal of a subsidiary	(126)	–	(126)
At 31 December 2004	4,223	(61)	4,162
At 31 December 2004:			
Cost	7,356	(100)	7,256
Accumulated amortisation	(3,133)	39	(3,094)
Net carrying amount	4,223	(61)	4,162

18. GOODWILL/NEGATIVE GOODWILL *(continued)*

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimate useful life of 10 years.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating units of the respective subsidiaries.

The recoverable amounts of these subsidiaries have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 4.65% (2004: 4.65%). No growth rate has been projected beyond the five-year period.

Key assumptions were used in the value in use calculation of the subsidiaries for 31 December 2005 and 31 December 2004. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for currencies denominated in Renminbi, United States dollars and Hong Kong dollars from where raw materials are sourced. The values assigned to key assumptions are consistent with external information sources.

19. OTHER INTANGIBLE ASSETS

Group

	Deferred expenses HK$'000	Deferred development costs HK$'000	Patents HK$'000	Total HK$'000
31 December 2005				
Cost at 1 January 2005, net of accumulated amortisation	1,309	8,877	2,628	12,814
Additions	–	120	181	301
Amortisation provided during the year	(1,308)	(7,829)	(1,474)	(10,611)
Impairment during the year	–	–	(491)	(491)
Exchange realignment	(1)	111	1	111
At 31 December 2005	**–**	**1,279**	**845**	**2,124**
At 31 December 2005:				
Cost	11,963	9,530	8,217	29,710
Accumulated amortisation and impairment	(11,963)	(8,251)	(7,372)	(27,586)
Net carrying amount	–	1,279	845	2,124
31 December 2004				
At 1 January 2004:				
Cost	12,447	29,026	7,830	49,303
Accumulated amortisation	(9,698)	(16,556)	(3,931)	(30,185)
Net carrying amount	2,749	12,470	3,899	19,118
Cost at 1 January 2004, net of accumulated amortisation	2,749	12,470	3,899	19,118
Additions	–	16,836	202	17,038
Amortisation provided during the year	(1,440)	(17,667)	(1,474)	(20,581)
Disposal of a subsidiary	–	(3,017)	–	(3,017)
Write-off	–	(4)	–	(4)
Exchange realignment	–	259	1	260
At 31 December 2004	1,309	8,877	2,628	12,814
At 31 December 2004 and at 1 January 2005:				
Cost	13,201	24,802	8,033	46,036
Accumulated amortisation	(11,892)	(15,925)	(5,405)	(33,222)
Net carrying amount	1,309	8,877	2,628	12,814

20. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**75,331**	75,331
Provision for impairment	**(47,629)**	(28,429)
	27,702	46,902
Due from subsidiaries	**207,993**	189,855
	235,695	236,757

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Peaktop Investment Holdings (B.V.I.) Limited	British Virgin Islands/ Hong Kong	Ordinary US$10,000	100	Investment holding
Peaktop Limited	Hong Kong	Ordinary HK$100 Deferred* HK$18,720,000	100	Trading of giftware, gardening and water gardening products and investment holding
Fuqing Yuansheng Light Industrial Products Co., Ltd.	The PRC/ Mainland China	Registered US$5,200,000	100	Manufacture and export of giftware, gardening and water gardening products

20. INTERESTS IN SUBSIDIARIES *(continued)*

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

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Luhe Yuansheng Light Industrial Products Co., Ltd.	The PRC/ Mainland China	Registered US$3,000,000	100	Manufacture and export of giftware, gardening and water gardening products
Shenzhen Yuansheng Light Industrial Products Co., Ltd.	The PRC/ Mainland China	Registered RMB80,000,000	100	Manufacture and export of giftware, gardening and water gardening products
Yu Hua (Zhong Shan) Electrical Appliance Co., Ltd.	The PRC/ Mainland China	Registered HK$9,999,800	100	Manufacture and distribution of water pumps
Yu Hua (Hong Kong) Electrical Appliance Co., Ltd.	Hong Kong	Ordinary HK$10,000	100	Distribution of water pumps
Tai Hua (Zhong Shan) Electrical Appliance Co., Ltd.	The PRC/ Mainland China	Registered HK$3,500,000	100	Manufacture and distribution of water pumps
Heissner AG (note 12)	Germany	Ordinary Euro3,250,000	99.1	Distribution of gardening and water gardening products
Peaktop Europe GmbH**	Germany	Ordinary Euro255,646	99.1	Distribution of gardening and water gardening products and investment holding

20. INTERESTS IN SUBSIDIARIES *(continued)*

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

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Silk Road Gifts, Inc.**	United States of America	Ordinary US$95,000	100	Wholesale of giftware and stationery and development of new products
HPT Group (USA), Inc.**	United States of America	Ordinary US$5,001,500	100	Investment holding
Heissner UK Limited**	United Kingdom	Ordinary £210,000	99.7	Distribution of gardening and water gardening products
Waterwerks Pty. Ltd.**	Australia	Ordinary AUD10,000	90	Distribution of gardening and water gardening products
Peaktop Technologies (USA) Hong Kong Limited	Hong Kong	Ordinary HK$10,000	51	Distribution of gardening and water gardening products
Peaktop (Vietnam) Limited**	Vietnam	Registered US$2,000,000	100	Manufacture and export of candle products

Except for Peaktop Investment Holdings (B.V.I.) Limited, all of the above subsidiaries are indirectly held by the Company.

20. INTERESTS IN SUBSIDIARIES *(continued)*

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

All the subsidiaries established in the PRC were registered as wholly-owned foreign enterprises.

* The deferred shares carry no rights to dividends (other than a dividend at a fixed rate of 1% per annum on the excess of the net profit the Company may determine to distribute in respect of any financial year over HK$1,000,000,000,000,000), no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than 1% of the surplus assets of the company available for distribution after a total of HK$100,000,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).

** Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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

21. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets	**83**	701
Due from associates	**168**	284
	251	985
Provision for impairment	**(300)**	(610)
	(49)	375

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

Particulars of the Group's principal associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Yuan Hua International Investment Company Limited ("Yuan Hua")**	Ordinary shares of HK$1 each	Hong Kong	30	Dormant

** Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

21. INTERESTS IN ASSOCIATES *(continued)*

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

The Group's shareholding in the associate is held through wholly-owned subsidiaries of the Company. The Group's voting power held and profit sharing arrangement in relation to Yuan Hua is 30%. The above associate has been accounted for using the equity method in these financial statements.

22. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/INVESTMENTS SECURITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Unlisted equity investments, at cost	**4,287**	4,500

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

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

23. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**74,344**	82,363
Work in progress	**25,804**	39,430
Finished goods	**70,173**	122,582
	170,321	244,375

At 31 December 2004, the carrying amount of the Group's inventories of approximately HK$68,927,000 was pledged to the Group's bankers to secure banking facilities granted to the Group, as further detailed in note 27 to the financial statements.

24. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 45 to 90 days, extending up to 120 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivable are non-interest-bearing.

An aged analysis of the accounts and bills receivable as at the balance sheet date, based on the payment due date and net of provisions, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current	**93,446**	92,611
30 to 60 days	**8,556**	23,428
61 to 90 days	**9,101**	9,597
Over 90 days	**8,674**	9,739
	119,777	135,375

The accounts and bills receivable in a disposal group (note 12) of HK$21,638,000 is current, the balance of HK$1,437,000 is aged 30 to 60 days and the remaining balance of HK$4,075,000 is aged 61 to 90 days.

At 31 December 2005, accounts and bills receivable of the Group of approximately HK$1,901,000 (2004: HK$22,540,000) were pledged to the Group's bankers to secure banking facilities granted to the Group, as further detailed in note 27 to the financial statements.

As at 31 December 2005, the Group has transferred certain bills of exchange amounting to HK$14,709,000 to banks with recourse in exchange for cash. The proceeds from transferring the bills receivable of HK$12,591,000 are accounted for as collateralised bank advances until the bills are collected or the Group makes good of any losses incurred by the banks.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the balance of the Group is the remaining sales proceeds of HK$2,032,000 (2004: HK$3,120,000) a receivable from Newa-Techno, an independent party of the Group, for the disposal of Peaktop Technologies Italy s.r.l. ("Peaktop Italy"). Pursuant to the sales and purchase agreement entered into between the Group and Newa Techno in the prior years, the Group disposed of the entire issued share capital of Peaktop Italy and a shareholder's loan in the sum of US$1,561,855 (equivalent to approximately HK$12,182,469) owing by Peaktop Italy to the Group for an aggregate consideration of US$800,000 (equivalent to approximately HK$6,240,000). In accordance with the sales and purchase agreement, the sales consideration of US$800,000 is to be settled as follows:

(i) US$400,000 (equivalent to approximately HK$3,120,000) was settled in cash;

(ii) US$250,000 (equivalent to approximately HK$1,950,000) will be satisfied by Newa-Techno providing, or procuring Peaktop Italy to provide, general research and development services in relation to water pumps used in the household indoor aquariums and water filtering systems to the Group on or before 31 December 2006; and

(iii) US$150,000 (equivalent to approximately HK$1,170,000) will be satisfied by Newa-Techno providing, or procuring Peaktop Italy to provide, a 15% discount on the aggregate purchase price of US$1,000,000 (equivalent to approximately HK$7,800,000) on water pumps, to the Group on or before 31 December 2006.

As at 31 December 2005, the unsettled portion of the research and development services and the purchase discount as stated in (ii) and (iii) above are recorded as other receivables in the consolidated financial statements.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		**Company**	
		2005	2004	**2005**	2004
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**36,857**	60,831	**26**	9,234
Time deposits		**9,028**	11,613	**4,000**	1,002
		45,885	72,444	**4,026**	10,236
Less: Pledged time deposits	27	**(968)**	(3,111)	**–**	–
Cash and cash equivalents		**44,917**	69,333	**4,026**	10,236

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$10,519,000 (2004: HK$6,892,000). 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 bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months 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 pledged deposits approximate to their fair values.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Finance lease payables *(note 28)*	Prime+1.5%	2006	**2,134**	3,511
Bank overdrafts – secured	Prime/HIBOR +0.5-2.75%	On demand	**13,624**	5,652
Collateralised bank advances – secured	Prime	2006	**12,591**	–
Trust receipt loans	Prime/HIBOR +0.25-2.75%	2006	**180,137**	120,386
Bank loans – secured	Prime/SIBOR +0-2.75%	2006	**111,558**	156,193
			320,044	285,742
Non-current				
Finance lease payables *(note 28)*	Prime+1.5%	2007-2008	**1,515**	3,789
Bank loans – secured	Prime+0.5%	2007-2008	**9,455**	80,032
			10,970	83,821
			331,014	369,563

	2005 HK$'000	2004 HK$'000
Analysed into:		
Interest-bearing bank and other borrowings repayable:		
Within one year or on demand	**320,044**	285,742
In the second year	**10,287**	52,637
In the third to fifth years, inclusive	**683**	24,887
Beyond five years	**–**	6,297
	331,014	369,563

27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Notes:

(a) The Group's bank loans, overdrafts and trust receipt facilities are secured by the following:

(i) corporate guarantees from the Company and certain subsidiaries of the Company;

(ii) first legal charges on all the investment properties with a carrying amount of HK$32,000,000 (2004: HK$17,758,000) (note 16), certain freehold land and buildings of the Group with a net book value of approximately HK$104,127,000 (2004: HK$185,054,000) (note 15) and certain leasehold land of the Group with a net book value of HK$23,571,000 (2004: HK$20,670,000) (note 17);

(iii) floating charges over certain of the Group's accounts and bills receivable of approximately HK$1,901,000 (2004: HK$22,540,000) (note 24);

(iv) floating charges over the assets of certain subsidiaries of the Group of HK$20,249,000 (2004: HK$20,517,000); and

(v) pledges over time deposits of HK$968,000 (2004: HK$3,111,000) (note 26).

In the prior year, the Group's banking facilities were also secured by legal charges over certain of the Group's construction in progress of approximately HK$6,243,000 (note 15) and inventories of HK$68,927,000 (note 23).

(b) Interest-bearing bank and other borrowings of HK$124,995,000, HK$106,849,000, HK$86,664,000 and HK$12,506,000 are denominated in United States dollars, Hong Kong dollars, Renminbi and Australian dollars, respectively.

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	**HK$'000**	HK$'000	HK$'000
Finance lease payables	**2,215**	**1,434**	3,550	3,750
Bank overdrafts – secured	**–**	**13,624**	–	5,652
Collateralised bank advances	**–**	**12,591**	–	–
Trust receipt loans	**1,937**	**178,200**	4,220	116,166
Bank loans – secured	**75,534**	**45,479**	78,960	157,265

The carrying amounts of the Group's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Finance lease payables	**1,515**	3,789	**1,402**	3,596
Fixed rate bank loans	**9,455**	80,032	**8,362**	75,798
	10,970	83,821	**9,764**	79,394

The fair value of bank and other borrowing has been calculated by discounting the expected future cash flows at prevailing interest rates.

28. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery, equipment and motor vehicles for its manufacturing business in Mainland China and marketing activities in Australia. These leases are classified as finance leases and have remaining lease terms ranging from one to two years.

At 31 December 2005, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2005 HK$'000	Minimum lease payments 2004 HK$'000	Present value of minimum lease payments 2005 HK$'000	Present value of minimum lease payments 2004 HK$'000
Amounts payable:				
Within one year	**2,359**	3,877	**2,134**	3,511
In the second year	**1,572**	2,559	**1,515**	2,385
In the third to fifth years, inclusive	**–**	1,462	**–**	1,404
Total minimum finance lease payments	**3,931**	7,898	**3,649**	7,300
Future finance charges	**(282)**	(598)		
Total net finance lease payables	**3,649**	7,300		
Portion classified as current liabilities (note 27)	**(2,134)**	(3,511)		
Long term portion (note 27)	**1,515**	3,789		

29. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current	**76,354**	77,664
30 to 60 days	**14,552**	32,603
61 to 90 days	**16,654**	33,960
Over 90 days	**26,267**	31,765
	133,827	175,992

The accounts payable included in a disposal group (note 12) of HK$7,889,000 are current, the balance of HK$3,495,000 is aged 30 to 60 days, the balance of HK$920,000 is aged 61 to 90 days and the remaining balance of HK$5,964,000 is aged over 90 days.

The accounts payable are non-interest-bearing and are normally settled on 60-day terms.

30. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**22,950**	28,416	**–**	–
Accruals	**27,093**	57,830	**78**	612
	50,043	86,246	**78**	612

Included in the balance of other payables is an accrued sales commission of HK$5,334,000 (2004: HK$23,009,000) payable to a minority shareholder of a subsidiary, Geoglobal Partners LLC ("Geoglobal"). The amount due to Geoglobal is unsecured, interest-free and repayable in normal commercial terms.

Other payables are non-interest-bearing and have an average term of 60 days.

31. LOANS FROM DIRECTORS

Group and Company

The loans from directors are unsecured, interest-free and have been fully repaid on 8 March 2006.

32. DEFERRED TAX

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

Deferred tax liabilities

Group

	2005			
	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Others HK$'000	Total HK$'000
At 1 January 2005	2,134	15,508	740	18,382
Deferred tax credited to the income statement during the year (note 10)	(212)	(100)	–	(312)
Deferred tax credited to asset revaluation reserve during the year (note 15)	–	(4,629)	–	(4,629)
Attributable to a disposal group (note 12)	(982)	(8,753)	–	(9,735)
Exchange realignment	(291)	(2,026)	–	(2,317)
Gross deferred tax liabilities at 31 December 2005	649	–	740	1,389

Deferred tax assets

Group

	2005 Losses available for offset against future taxable profit HK$'000
At 1 January 2005	22,880
Deferred tax credited to the income statement during the year (note 10)	635
Attributable to a disposal group (note 12)	(20,114)
Exchange realignment	(3,167)
Gross deferred tax assets at 31 December 2005	234
Deferred tax liabilities at 31 December 2005	1,389
Deferred tax assets at 31 December 2005	(234)
Net deferred tax liabilities at 31 December 2005	1,155

32. DEFERRED TAX *(continued)*

Deferred tax liabilities

Group

	2004			
	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Others HK$'000	Total HK$'000
At 1 January 2004	2,270	14,370	740	17,380
Deferred tax charged/(credited) to the income statement during the year (note 10)	(254)	(156)	–	(410)
Exchange realignment	118	1,294	–	1,412
Gross deferred tax liabilities at 31 December 2004	2,134	15,508	740	18,382

Deferred tax assets

Group

	2004 Losses available for offset against future taxable profit HK$'000
At 1 January 2004	20,819
Deferred tax credited to the income statement during the year (note 10)	151
Exchange realignment	1,910
Gross deferred tax assets at 31 December 2004	22,880
Deferred tax liabilities at 31 December 2004	(1,422)
Deferred tax assets at 31 December 2004	5,920
Net deferred tax assets at 31 December 2004	4,498

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through utilisation against future taxable profits is probable. The Group has unutilised tax losses of approximately HK$94,610,000 (2004: HK$105,429,000) which will be carried forward for deduction against future taxable income. Estimated tax losses of approximately HK$4,369,000 (2004: HK$1,522,000) will expire within 1 to 20 years from 31 December 2005. The remaining portion of the tax losses, mainly relating to the companies in Hong Kong and Europe, can be carried forward indefinitely.

32. DEFERRED TAX *(continued)*

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 due to the availability of double tax relief.

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

33. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	HK$'000
Authorised:		
1,000,000,000 (2004: 1,000,000,000) ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
857,196,000 (2004: 730,938,000) ordinary shares of HK$0.10 each	**85,720**	73,094

On 18 May 2005, the Company entered into the capitalisation agreements with each of Mr. Lin Chun Kuei, Mr. Andree Halim and Mr. Ng Kin Nam, directors of the Company, pursuant to which Mr. Lin, Mr. Halim and Mr. Ng have conditionally agreed to subscribe for 42,086,000 new shares each in cash, at a subscription price of approximately HK$0.139 per share by capitalising their shareholders' loans.

As at the date of the capitalisation agreements, the Company was indebted to each of Mr. Lin, Mr. Halim and Mr. Ng in the sum of US$750,000 (equivalent to approximately HK$5,850,000) each. The subscription price payable by each of the directors under the capitalisation agreements will be satisfied by capitalising the entire amount of the shareholders' loans due from the Company to Mr. Lin, Mr. Halim and Mr Ng in aggregate of HK$17,550,000. On 7 July 2005, the Company issued 126,258,000 shares of HK$0.1 each to the directors by capitalising the shareholders' loans at a subscription price of HK$0.139 per share pursuant to the capitalisation agreements.

	Number of shares in issue	**Issued share capital**	**Share premium account**	**Total**
	'000	HK$'000	HK$'000	HK$'000
At 1 January 2004 and 1 January 2005	730,938	73,094	94,478	167,572
Issue of shares	126,258	12,626	4,924	17,550
	857,196	85,720	99,402	185,122
Share issue expenses	–	–	(142)	(142)
At 31 December 2005	**857,196**	**85,720**	**99,260**	**184,980**

Share options

Details of the Company's share option scheme are included in note 34 to the financial statements.

34. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"). The purpose of the Scheme is to enable the Company to grant options to the eligible participants in recognition of their contributions to the Group. Subject to the terms of the Scheme, the directors may, at their absolute discretion, invite employees of the Group, including executive directors, non-executive directors of the Company or any of its subsidiaries, suppliers, consultants, agents and advisers, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for shares.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) at any time under this scheme shall not, when combined with any shares subject to any other schemes involving the issue or grant of options over shares by the Company, or for the benefit of the eligible participants, exceed such number of shares as shall represent 10% of the issued share capital of the Company at the adoption date (the "Scheme Mandate Limit"). Options that lapse in accordance with the terms of this scheme will not be counted for the purpose of calculating the Scheme Mandate Limit unless the Company obtains a fresh approval from shareholders to renew the 10% limit provided that the maximum number of shares in respect of which options may be granted under the Scheme together with any options outstanding and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the issued shares at any time.

The total number of shares issued and to be issued on the exercise of options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of the grant of each eligible participant shall not exceed 1% of the total issued shares.

The offer of a grant of share option may be accepted for a period of 28 days from the date of offer. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the eligible participant together with the consideration of HK$1.00 is received by the Company.

The exercise price of shares will not be less than the higher of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of the grant.

An option may be exercised at any time during the period to be determined and identified by the board to each grantee at the time of making an offer for the grant of an option, but in any event no later than 10 years from the adoption date but subject to the early termination of the new share option scheme.

No share options were granted during the year and there were no outstanding share options under the Scheme at the balance sheet date (2004 : Nil).

35. RESERVES AND MINORITY INTERESTS

	Notes	Share premium account HK$'000	Contributed surplus HK$'000 (note a)	Exchange fluctuation reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000 (note b)	Retained profits HK$'000	Total reserves HK$'000	Minority interests HK$'000	Total HK$'000
		Attributable to equity holders of the parent								
Group										
At 1 January 2004										
As previously reported		94,478	18,528	3,424	11,682	20,143	18,177	166,432	2,124	168,556
Prior year adjustment	2.4	–	–	–	(1,244)	–	–	(1,244)	–	(1,244)
As restated		94,478	18,528	3,424	10,438	20,143	18,177	165,188	2,124	167,312
Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of an overseas branch		–	–	2,594	–	–	–	2,594	114	2,708
Exchange fluctuation reserve released on disposal of subsidiaries	36(a)	–	–	(1,753)	–	–	–	(1,753)	–	(1,753)
Effect on minority interests in relation to disposal of subsidiaries	36(a)	–	–	–	–	–	–	–	(301)	(301)
Net profit for the year		–	–	–	–	–	6,421	6,421	316	6,737
Transfer to the statutory reserve		–	–	–	–	1,353	(1,353)	–	–	–
At 31 December 2004		94,478	18,528	4,265	10,438	21,496	23,245	172,450	2,253	174,703

35. RESERVES AND MINORITY INTERESTS *(continued)*

		Attributable to equity holders of the parent								
		Share premium account	**Contributed surplus**	**Exchange fluctuation reserve**	**Asset revaluation reserve**	**Statutory reserve**	**Retained profits**	**Total reserves**	**Minority interests**	**Total**
	Notes	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(note a)			(note b)				
Group										
At 1 January 2005										
As previously reported		94,478	18,528	4,265	11,682	21,496	23,245	173,694	2,253	175,947
Prior year adjustment	2.4	–	–	–	(1,244)	–	–	(1,244)	–	(1,244)
Opening adjustment	2.4	–	–	–	–	–	61	61	–	61
As restated		94,478	18,528	4,265	10,438	21,496	23,306	172,511	2,253	174,764
Issue of shares	33	4,924	–	–	–	–	–	4,924	–	4,924
Share issue expenses	33	(142)	–	–	–	–	–	(142)	–	(142)
Deficit on revaluation of freehold land and buildings		–	–	(1,535)	(6,452)	–	–	(7,987)	–	(7,987)
Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of an overseas branch		–	–	(2,008)	–	–	–	(2,008)	(191)	(2,199)
Net loss for the year		–	–	–	–	–	(16,724)	(16,724)	(801)	(17,525)
Transfer to the statutory reserve		–	–	–	–	1,283	(1,283)	–	–	–
At 31 December 2005		**99,260**	**18,528**	**722**	**3,986**	**22,779**	**5,299**	**150,574**	**1,261**	**151,835**

35. RESERVES AND MINORITY INTERESTS *(continued)*

	Share premium account HK$'000	Contributed surplus HK$'000 (note a)	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Company				
Balance at 1 January 2004	94,478	75,131	353	169,962
Net loss for the year	–	–	(2,348)	(2,348)
At 31 December 2004 and 1 January 2005	94,478	75,131	(1,995)	167,614
Issue of shares (note 33)	4,924	–	–	4,924
Share issue expenses (note 33)	(142)	–	–	(142)
Net loss for the year	–	–	(20,617)	(20,617)
At 31 December 2005	**99,260**	**75,131**	**(22,612)**	**151,779**

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange therefore in connection with the Group's reorganisation in 1997.

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired over the nominal value of the shares of the Company issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for cash distribution and/or distribution in specie under certain circumstances prescribed by Section 54 thereof.

(b) In accordance with the relevant the PRC regulations, subsidiaries of the Company established in the PRC is required to transfer a certain percentage of its profits after tax, if any, to the statutory reserve. Subject to certain restrictions set out in the relevant PRC regulations, the statutory reserve may be used to offset accumulated losses of the subsidiary.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	Note	**2005** **HK$'000**	2004 HK$'000
Net assets disposed of:			
Property, plant and equipment		–	12,800
Other intangible assets		–	3,017
Goodwill		–	126
Available-for-sale equity investments/ investments securities		–	(37)
Inventories		–	11,133
Accounts receivable		–	7,024
Prepayments, deposits and other receivables		–	1,095
Tax recoverable		–	274
Cash and cash equivalents		–	3,847
Bank overdrafts		–	(2,025)
Bank loans		–	(2,410)
Trust receipt loans		–	(6,539)
Accounts and bills payable		–	(6,485)
Other payables and accruals		–	(11,075)
Tax payable		–	(7)
Minority interests *(note 35)*		–	(301)
		–	10,437
Loss on disposal of subsidiaries, net	6	–	(2,902)
		–	7,535
Satisfied by:			
Cash		–	3,291
Other receivables		–	3,120
Accrued expenses incurred by the Group on the disposal of subsidiaries		–	(629)
Exchange fluctuation reserve released on disposal of subsidiaries *(note 35)*		–	1,753
		–	7,535

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Disposal of subsidiaries *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2005	2004
	HK$'000	HK$'000
Cash consideration	–	3,291
Cash and bank balances disposed of	–	(3,847)
Bank overdrafts disposed of	–	2,025
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	1,469

In the prior year, the results of the subsidiaries disposed of had no significant impact on the Group's consolidated turnover or profit after tax for that year.

(b) Major non-cash transactions

(i) During the year, the Group capitalised the loans from Mr. Lin, Mr. Halim and Mr. Ng in the amount of US$750,000 each (equivalent to approximately HK$5,850,000) as share capital and share premium of the Company.

(ii) In the prior year, the Group capitalised interest expense of HK$195,000 in property, plant and equipment (note 15).

(iii) In the prior year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the lease of HK$4,846,000.

37. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills discounted with recourse (note (b))	–	36,973	–	–
Standby letter of credit to an independent party	**7,800**	7,800	–	–
Guarantees of banking facilities granted to subsidiaries	–	–	**399,845**	363,666
Guarantees of finance leases granted to subsidiaries	–	–	**47,400**	11,400

37. CONTINGENT LIABILITIES *(continued)*

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows: *(continued)*

At the balance sheet date, banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$291,720,581 (2004: HK$243,377,000).

(b) At 31 December 2005, bills of exchange discounted to banks with recourse were accounted for as collateralised bank advances for discounted bills in the current year pursuant to the adoption of HKAS39 (note 27).

(c) At 31 December 2005, the Group had a number of current employees who have completed the required number of years of service to the Group under the Hong Kong Employment Ordinance (the "Employment Ordinance") in order to be eligible for long service payments if their employment is terminated under certain circumstances. If the employment of all these employees had been terminated on 31 December 2005 under circumstances meeting the requirements of the Employment Ordinance, the Group's contingent liability in respect of possible future long service payments at that date would have been approximately HK$872,000 (2004: HK$1,115,000). A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to 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:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**830**	1,074
In the second to fifth years, inclusive	**202**	566
	1,032	1,640

38. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain of its office and factory properties under operating lease arrangements which are negotiated for terms ranging from one to fifty 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	**3,104**	8,404
In the second to fifth years, inclusive	**6,746**	10,059
Over five years	**43,109**	45,609
	52,959	64,072

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following commitments at the balance sheet date:

	2005	2004
	HK$'000	HK$'000
Capital commitments contracted, but not provided for		
Buildings	**15,098**	26,568
Leasehold improvements	**871**	–
Capital contributions payable to wholly-owned subsidiaries	**1,092**	–
	17,061	26,568

The Company did not have any other significant commitments at the balance sheet date (2004: Nil).

40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances set out elsewhere in these financial statements, during the year, the Group entered into the following material related party transactions:

(i) The Group has paid approximately HK$1,400,694 (2004: HK$1,170,000) of product design and research expenses to a company owned by Mr. Graeme Stanley Pope, a director of the Company, for the development of new products.

(ii) Pursuant to an agreement dated 9 January 2004 (the "Agreement") entered into between the Group and Geoglobal, a company which holds 49% equity interests of the subsidiaries, Peaktop Technologies (USA) Hong Kong Limited and Peaktop Technologies (USA), Inc., the Group and Geoglobal agreed to share the net profit on those sales introduced by Geoglobal in accordance with the Agreement or in other proportion as agreed otherwise. During the year, the Group charged to the income statement of such profit amounted to HK$76,017,000 (2004: HK$41,018,000) in the form of sales commission. The accrued sales commission payable to Geoglobal amounted to HK$5,333,000 (2004: HK$23,009,000) as at 31 December 2005.

40. RELATED PARTY TRANSACTIONS *(continued)*

(a) In addition to the transactions and balances set out elsewhere in these financial statements, during the year, the Group entered into the following material related party transactions: *(continued)*

(iii) On 18 May 2005, the Company entered into the capitalisation agreements with each of Mr. Lin, Mr. Halim and Mr. Ng, directors of the Company, pursuant to which Mr. Lin, Mr. Halim and Mr. Ng have conditionally agreed to subscribe for 42,086,000 new shares each in cash at a subscription price of approximately HK$0.139 per share by capitalising their shareholders' loans.

As at the date of the capitalisation agreements, the Company was indebted to each of Mr. Lin, Mr. Halim and Mr. Ng in the sum of US$750,000 (equivalent to approximately HK$5,850,000) each. The subscription price payable by each of the directors under the capitalisation agreements will be satisfied by capitalising the entire amount of the shareholders' loans due from the Company to Mr. Lin, Mr. Halim and Mr. Ng in aggregate of HK$17,550,000. On 7 July 2005, the Company issued 126,258,000 shares in aggregate to the directors pursuant to the capitalisation agreements.

(iv) During the year, Ms. Lin Huang Su Feng, director of the Company, advanced a loan of HK$2,340,000 to the Company. The loan is unsecured, interest free and has been fully repaid subsequent to the balance sheet on 8 March 2006.

The above related party transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

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

	2005	2004
	HK$'000	HK$'000
Short term employee benefits	**11,658**	11,328

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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 debt obligations with floating interest rates.

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

Cash flow interest rate risk *(continued)*

The Group does not hedge interest rate fluctuations. In the opinion of the directors, the Group has no significant interest rate risk due to the short maturity of the Group's interest-bearing bank and other borrowings.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Most of the Group's sales are denominated in United States dollars and Euros, while banking facilities repayment and purchase were made essentially in the corresponding currencies and Renminbi. The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group mainly trades with recognised and creditworthy third parties. It is the Group's policy that credit terms are granted subject to in-depth credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. In this regard, management of the Company considers that the Group's credit risk is minimal.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and finance leases. The Group maintains good working relations with its bankers and ensures compliance with covenants as stipulated in the loans and finance lease agreements.

42. POST BALANCE SHEET EVENTS

Details of the post balance sheet events have been disclosed in note 3, 12, 31 and 40 to the financial statements.

43. 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 and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2006.