Notes to the Financial Statements

For the year ended 31 December 2005

1. General

The Company was incorporated in Bermuda with limited liability as an exempted company under the Companies Act (1981) of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited ("SEHK"). The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is Suite 3008, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 17 to the financial statements.

2. Basis of Preparation of Financial Statements

(a) Basis of preparation of financial statements

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of land and buildings and available-for-sale securities as explained in the accounting policies set out below.

Notwithstanding that the Company and the Group incur losses and had net current liabilities and capital deficiency at 31 December 2005, including unsecured other loans together with accrued interest of approximately HK$7.5 million *(note 26)* which are overdue and remain outstanding as at the date of authorization for issue of the financial statements, these financial statements have been prepared on a going concern basis as the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as when they fall due having regard to the following:

(i) HK$30 million loan facilities is made available to the Company from financial institutions up to 31 March 2007 which the financial institutions reserve the right to terminate the facilities at any time by notice to the Company in writing; and

(ii) continuing financial support received from a substantial shareholder, Tees Corporation.

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, these financial statements have been prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

Notes to the Financial Statements

For the year ended 31 December 2005

2. Basis of Preparation of Financial Statements *(Continued)*

(b) Adoption of new and revised Hong Kong Financial Reporting Standards

From 1 January 2005, the Group has adopted the new and revised standards and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005 and which are relevant to its operations.

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment. Accordingly the 2004 comparative figures and their presentation have been amended where necessary in accordance with HKAS 8 and differ from those published in the financial statements for the year ended 31 December 2004.

The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The adoption of the following new HKFRSs has resulted in changes to the Group's accounting policies that have an effect on how the results for the current or prior accounting periods are prepared and presented.

- Business combinations (HKFRS 3);
- Impairment of assets (HKAS 36);
- Financial instruments (HKAS 32 and HKAS 39); and
- Leases (HKAS 17).

The impact of these changes in accounting policies is discussed below:

HKFRS 3 Business combinations and HKAS 36 Impairment of assets

In prior periods:

— positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the consolidated income statement until disposal or impairment of the acquired business;

— positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

Notes to the Financial Statements

For the year ended 31 December 2005

2. Basis of Preparation of Financial Statements *(Continued)*

(b) Adoption of new and revised Hong Kong Financial Reporting Standards *(Continued)*

HKFRS 3 Business combinations and HKAS 36 Impairment of assets *(Continued)*

— negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it relates to identified expected future losses as at the date of acquisition. In such cases it was recognised in the consolidated income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but subject to testing at least annually for impairment. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in consolidated income statement as it arises. Further details of these new policies are set out in note 3(e).

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangement under HKFRS 3. As a result of the new accounting policy, the Group's loss before taxation for the year ended 31 December 2005 decreased by approximately HK$1,813,000 and interests in associates at 31 December 2005 increased by approximately HK$1,813,000.

Also in accordance with the transitional arrangement under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in profit or loss on disposal or impairment of the acquired business, or under any other circumstances.

Notes to the Financial Statements

For the year ended 31 December 2005

2. Basis of Preparation of Financial Statements *(Continued)*

(b) Adoption of new and revised Hong Kong Financial Reporting Standards *(Continued)*

HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement

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

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39. Prior to 1 January 2005, the Group classified its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities" and "other investments" as appropriate. Investment securities are carried at cost less impairment losses (if any) while other investments are measured at fair value, with realised/unrealised gains or losses included in the consolidated income statement. From 1 January 2005 onwards, the Group has classified and measured its debts and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "held-to-maturity financial assets" or "loans and receivables". Financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value, with changes in fair value recognised in consolidated income statement and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. Loans and receivables and held-to-maturity financial assets are measured at amortised cost using the effective interest rate method after initial recognition.

On 1 January 2005, the Group designated investment securities amounted to HK$6,269,000, as available-for-sale securities.

Notes to the Financial Statements

For the year ended 31 December 2005

2. Basis of Preparation of Financial Statements *(Continued)*

(b) Adoption of new and revised Hong Kong Financial Reporting Standards *(Continued)*

HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement *(Continued)*

From 1 January 2005, financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in consolidated income statement directly. Other financial liabilities are carried at amortised cost using effective interest rate method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. There has been no material effect on how the results for the current accounting period are prepared and presented.

HKAS 17 Leases

Upon the adoption of HKAS 17, the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

In previous years, leasehold land and buildings were included in fixed assets and carried at valuation less accumulated depreciation and accumulated impairment losses. Since the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments continue to be treated as finance leases and included in fixed assets.

Notes to the Financial Statements

For the year ended 31 December 2005

2. Basis of Preparation of Financial Statements *(Continued)*

(c) New and revised Hong Kong Financial Reporting Standards that have been issued but are not yet effective

There is no early adoption of the following new and revised HKFRSs applicable to these financial statements, that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 21 (Amendment)	The Effect of Changes in Foreign Exchange Rates[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) — Int 4	Determining whether an Arrangement contains a Lease[2]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2006

The directors anticipate that the adoption of these new HKFRSs in future periods will have no material impact on the financial statements of the Group.

3. Principal Accounting Policies

(a) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Sale of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(ii) Interest income

Interest income is accrued on a time basis by reference to the principal amounts outstanding and at the effective interest rates applicable.

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 2005.

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

Intra-group balances and transactions, and any unrealised profit arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the associate's net assets. The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year *(see notes 3(e) and (h))*. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Any goodwill adjustment attributable to the share in the associate is included in the amount recognised as investment in an associate.

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(d) Associates *(Continued)*

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generated units and is tested annually for impairment *(see note 3(h))*. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

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 a business combination or an investment in an associate is recognised immediately in the consolidated income statement.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Investments

The Group's investment in equity securities, other than investment in subsidiaries and associates, are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date, the fair value is remeasured and any gain or loss is recognised in the consolidated income statement.

Investment in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Other investment in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured and any gain or loss is recognised directly in equity, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(g) Fixed assets

(i) Fixed assets are stated in the balance sheet on the following bases:

— Land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and

— Plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses, if any.

(ii) Changes arising on the revaluation of land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

— When a deficit arises on revaluation, it will be charged to the consolidated income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

— When a surplus arises on revaluation, it will be credited to the consolidated income statement, if and to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the consolidated income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

(v) Depreciation is calculated to write off the cost or valuation of fixed assets less residual value over their estimated useful lives as follows:

Land and buildings	30 years
Leasehold improvements	over the unexpired term of the lease
Plant and machinery	5 years
Furniture, fixtures, office equipment and motor vehicles	5 years
Moulds and tools	5 years

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(g) Fixed assets *(Continued)*

(vi) The useful lives and residual value of the assets are reviewed and adjusted, if any, at each balance sheet date.

(h) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exist, any impairment loss is determined and recognised as follows:

— For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return of a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

— For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest (i.e. the effective interest rate computed at initial recognition of these assets).

— If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in consolidated income statement. The amount of the cumulative loss that is recognised in consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated income statement.

— Impairment losses recognised in consolidated income statement in respect of available-for-sale equity security are not reversed through consolidated income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(h) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables *(Continued)*

— Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in consolidated income statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

(iii) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(iv) Recognition of impairment losses

An impairment loss is recognised in consolidated income statement whenever the carrying amount of an asset or the cash-generated unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(v) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(h) Impairment of assets *(Continued)*

(v) Reversals of impairment losses (Continued)

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expenses in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(j) Foreign currency translation *(Continued)*

(ii) Transactions and balances in each entity's financial statements (Continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(iii) Translation on consolidation

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(k) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(k) Employee benefits *(Continued)*

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated income statement as incurred.

(iii) Subsidiaries incorporated in the People's Republic of China ("PRC") participate in the retirement schemes operated by the local authorities for the Group's employees in the PRC. Contributions to these schemes are charged to the consolidated income statement when incurred.

(iv) The fair value of the options is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in consolidated income statement, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price over the nominal value of the shares is recorded by the Company in the share premium account.

(v) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(l) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been with three months of maturity at acquisition. For the purpose of the cash flow statement, bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(m) Related parties

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

(a) directly, or indirectly through one or more intermediaries, the party:

(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 of the Group;

(c) the party is a member of key management personnel of the Company or its parent company;

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

(e) 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, the individual referred to in (c) or (d);

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

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(o) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are separately identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over the estimated useful lives to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(p) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred.

(q) Leases

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(r) Taxation

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

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

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(r) Taxation *(Continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affect neither the taxable profit nor the accounting profit.

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(s) Segment reporting *(Continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of fixed assets, inventories and receivables. Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

In respect of geographical segment reporting, sales are based on the countries in which customers are located. Total assets and capital expenditure are based on where the assets are located.

(t) Events after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(u) Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(v) Financial liability and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

Notes to the Financial Statements

For the year ended 31 December 2005

3. Principal Accounting Policies *(Continued)*

(v) Financial liability and equity instruments *(Continued)*

(i) Trade and other payables

Trade and other payables are stated at their fair value and subsequently measured at amortised cost using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) Equity instruments

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the entity's accounting policies which are described in note 3 to the financial statements, management has made the following judgements that have significant effect on the amount recognised in the financial statements.

Going concern basis

The Group's management has prepared the financial statements on a going concern basis. Details of the basis please refer to note 2(a) to the financial statements.

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

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to serve industry cycles. Management will reassess the estimates at each balance sheet date.

Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount required involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

Notes to the Financial Statements

For the year ended 31 December 2005

5. Financial Risk Management Objectives and Policies

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

Currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Renminbi (RMB) and United States Dollars (USD). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. Hong Kong Dollars against RMB and USD were relatively stable during the year and as a result, the Group considers it has no material foreign currency risks.

Interest rate risk

The interest rates and the terms of loan from financial institutions and unsecured other loans are disclosed in notes 25 and 26 to the financial statements. The Group has no significant exposure to interest rate risk.

Credit risk

The Group has no significant concentration of credit risk. The carrying amount of the trade and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

Liquidity risk

The Group is exposed to liquidity risk. At 31 December 2005, the Group had net current liabilities and net liabilities of HK$105,693,000 and HK$31,395,000 respectively. The maintenance of the Group as a going concern is significantly dependent on the future improvement of the Group's profitability and cash flows from its operation and the availability of continuous funding from the substantial shareholder, Tees Corporation, and the loans from financial institutions as described in Note 2(a) above.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

Fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Notes to the Financial Statements

For the year ended 31 December 2005

5. Financial Risk Management Objectives and Policies *(Continued)*

Fair value estimation *(Continued)*

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables, loans from financial institutions and unsecured other loans are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

6. Turnover

Turnover represents the aggregate of sales value of goods supplied to customers less goods returned, trade discounts and sales tax. The amount of revenue recognized in turnover during the year represents manufacture and sale of healthcare and household products.

7. Other Revenue and Other Gain, Net

	2005	2004
	HK$'000	*HK$'000*
Other revenue		
Interest income	**15**	236
Income from scrap sales	**919**	587
Rental income	**18**	17
Miscellaneous	**21**	3
	973	843
Other gain, net		
Net gain on disposal and written off of fixed assets	**336**	288
Gain on deemed disposal of a subsidiary	**—**	1,776
Gain on disposal of a subsidiary	**—**	1,570
Exchange gain	**852**	475
Others	**264**	1,180
	1,452	5,289

Notes to the Financial Statements

For the year ended 31 December 2005

8. Segmental Information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group has been operating in a single business segment, that is the manufacture and sale of healthcare and household products.

(b) Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	North America		Europe		The PRC		Hong Kong and others		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**85,103**	87,740	**51,250**	45,121	**—**	—	**31,954**	37,422	**168,307**	170,283
Segment assets	**—**	—	**—**	—	**46,785**	23,863	**27,513**	56,273	**74,298**	80,136
Capital expenditure incurred during the year	**—**	—	**—**	—	**4,520**	8,694	**319**	278	**4,839**	8,972

Notes to the Financial Statements

For the year ended 31 December 2005

9. Loss from Operations

Loss from operations is arrived at after charging:

	2005 HK$'000	2004 HK$'000
Cost of inventories#	**129,236**	132,988
Staff costs including directors' remuneration (including contributions to retirement scheme of HK$547,000 (2004: HK$559,000))#/*	**38,113**	36,750
Amortisation of positive goodwill	**—**	111
Amortisation of positive goodwill included in share of losses of associates	**—**	1,813
Auditors' remuneration	**600**	580
Research and development costs*	**3,498**	3,558
Depreciation#	**4,963**	4,964
Operating lease charges in respect of land and buildings	**2,549**	2,330
Impairment of investment securities	**—**	4,731
Impairment of available-for-sale securities	**1,791**	—
Impairment of interests in associates	**12,266**	—
Write off of other receivables	**1,139**	—

\# Cost of inventories includes HK$11,529,000 (2004: HK$12,797,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

* Research and development costs include staff costs of HK$3,167,000 (2004: HK$2,938,000) which amount is also included in staff costs disclosed separately above.

10. Finance Costs

	2005 HK$'000	2004 HK$'000
Interest on bank loans wholly repayable within one year	**644**	640
Interest on other borrowings wholly repayable within one year	**1,017**	816
	1,661	1,456

Notes to the Financial Statements

For the year ended 31 December 2005

11. Directors' Remuneration and Five Highest Paid Individuals

Details of emoluments of the directors of the Company disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

For the year ended 31 December 2005

	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Share-based payment	Retirement benefits scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of director						
Executive directors						
Mr. Leung Chung Shan	—	3,232	—	—	34	3,266
Mr. Tam Lup Wai, Franky	—	1,300	—	—	37	1,337
Mr. Chiu Wing Keung	—	845	—	—	27	872
Independent non-executive directors						
Mr. Chow Siu Ngor	120	—	—	—	—	120
Mr. Ting Leung Huel, Stephen	120	—	—	—	—	120
Mr. Lam Bing Kwan	60	—	—	—	—	60
	300	5,377	—	—	98	5,775

Notes to the Financial Statements

For the year ended 31 December 2005

11. Directors' Remuneration and Five Highest Paid Individuals *(Continued)*

For the year ended 31 December 2004

	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Share-based payment	Retirement benefits scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of director						
Executive directors						
Mr. Leung Chung Shan	—	3,223	—	—	59	3,282
Mr. Tam Lup Wai, Franky	—	1,300	—	—	65	1,365
Mr. Chiu Wing Keung	—	845	—	—	42	887
Independent non-executive directors						
Mr. Chow Siu Ngor	120	—	—	—	—	120
Mr. Ting Leung Huel, Stephen	120	—	—	—	—	120
Mr. Lam Bing Kwan	15	—	—	—	—	15
	255	5,368	—	—	166	5,789

During the year, no options were granted to the directors.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2004: HK$Nil).

Notes to the Financial Statements

For the year ended 31 December 2005

11. Directors' Remuneration and Five Highest Paid Individuals *(Continued)*

The five highest paid individuals for the year ended 31 December 2005 included three (2004: three) directors, details of whose emoluments are disclosed above. Details of the emoluments of the remaining two (2004: two) highest paid individuals for the year ended 31 December 2005, which fell within the "Nil to HK$1,000,000" band, are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**1,616**	1,594
Retirement benefits scheme contributions	**65**	56
	1,681	1,650

During the year, no emoluments were paid or payable by the Group to the directors and five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2004: HK$Nil).

12. Taxation

(a) Hong Kong profits tax is provided at 17.5% (2004: 17.5%) based on the assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax and PRC income tax has been made in the financial statements as the individual companies comprising the Group do not have any assessable profits for taxation purposes during the year or have sufficient tax losses brought forward to set off against current year's assessable profit.

(b) The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax taxation rate as follows:

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(27,223)**	(21,415)
Hong Kong profits tax at 17.5%	**(4,764)**	(3,752)
Tax effect of non-deductible expenses	**5,584**	3,617
Tax effect of non-taxable revenue	**(402)**	(41)
Tax effect of utilisation of timing difference not previously recognised	**—**	(382)
Tax effect of tax losses not recognised	**426**	789
Tax effect of utilisation of tax losses not previously recognised	**(844)**	(231)
	—	—

Notes to the Financial Statements

For the year ended 31 December 2005

13. Loss for The Year

The consolidated loss for the year attributable to equity holders of the Company includes a loss of HK$1,771,000 (2004: HK$65,116,000) which has been dealt with in the financial statements of the Company.

14. Dividends

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2005 (2004: HK$Nil).

15. Loss Per Share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to equity holders of the Company of HK$27,223,000 (2004: HK$21,415,000) and the weighted average number of ordinary shares of 1,937,826,789 (2004: 1,937,430,068) in issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented as the inclusion of the effects of all potential dilutive ordinary shares would not have a dilutive effect on the basic loss per share for both the current and prior year.

Notes to the Financial Statements

For the year ended 31 December 2005

16. Fixed Assets

Group

	Land and buildings HK$'000	Optical fibre cable HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Moulds and tools HK$'000	Total HK$'000
Cost or valuation:							
At 1 January 2004	17,800	48,457	2,075	15,928	14,202	20,140	118,602
Additions	—	—	—	1,941	568	6,463	8,972
Disposals	—	—	(212)	(401)	(1,956)	(3,644)	(6,213)
Written off	—	—	—	(6)	—	(61)	(67)
At 31 December 2004	17,800	48,457	1,863	17,462	12,814	22,898	121,294
Additions	—	—	—	1,122	706	3,011	4,839
Disposals	—	—	—	—	—	(916)	(916)
Written off	—	—	—	(58)	(93)	—	(151)
Exchange difference	342	—	—	422	83	403	1,250
At 31 December 2005	18,142	48,457	1,863	18,948	13,510	25,396	126,316
Representing:							
Cost	—	48,457	1,863	18,948	13,510	25,396	108,174
Valuation — 2003	18,142	—	—	—	—	—	18,142
	18,142	48,457	1,863	18,948	13,510	25,396	126,316
Accumulated depreciation and impairment:							
At 1 January 2004	—	48,457	964	14,050	12,080	17,217	92,768
Charge for the year	848	—	621	1,170	731	1,594	4,964
Written back on disposals	—	—	(85)	(349)	(1,360)	(292)	(2,086)
Written back on write off	—	—	—	(6)	—	(46)	(52)
At 31 December 2004	848	48,457	1,500	14,865	11,451	18,473	95,594
Charge for the year	864	—	363	1,067	755	1,914	4,963
Written back on disposals	—	—	—	—	—	(109)	(109)
Written back on write off	—	—	—	(58)	(81)	—	(139)
Exchange difference	17	—	—	376	70	375	838
At 31 December 2005	1,729	48,457	1,863	16,250	12,195	20,653	101,147
Net book value:							
At 31 December 2005	16,413	—	—	2,698	1,315	4,743	25,169
At 31 December 2004	16,952	—	363	2,597	1,363	4,425	25,700

Notes to the Financial Statements

For the year ended 31 December 2005

16. Fixed Assets *(Continued)*

(a) The analysis of the net book value of land and buildings is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Outside Hong Kong — medium-term leases	**16,413**	16,952

(b) The Group's land and buildings held for own use were revalued at 31 December 2003 on an open market value basis by C S Surveyors Limited, an independent firm of professional valuers. Had the land and buildings held for own use been carried at historical cost less accumulated depreciation and impairment loss as at 31 December 2005 their carrying value would have been approximately HK$27,261,000 (2004: HK$28,355,000).

(c) At 31 December 2005, land and buildings of the Group with a carrying value of HK$16,413,000 (2004: HK$16,952,000) held outside Hong Kong was pledged to secure certain loan facilities granted to the Group *(note 25)*.

Notes to the Financial Statements

For the year ended 31 December 2005

17. Interests in Subsidiaries

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**191,351**	191,351
Amounts due from subsidiaries	**1,449,912**	1,450,854
Amounts due to subsidiaries	**(24,554)**	(24,554)
	1,616,709	1,617,651
Less: Impairment loss	**(1,641,199)**	(1,641,861)
	(24,490)	(24,210)

Amounts due from/(to) subsidiaries are unsecured, interest-free and will not be repayable within the next twelve months.

The following list contains the particulars of subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated. All of these are controlled subsidiaries as defined under note 3(c) and have been consolidated in the Group financial statements.

			Percentage of ownership interest			
Name of company	**Place of incorporation and operation**	**Particulars of issued share and paid up capital**	**Group's effective holding**	**Held by the Company**	**Held by subsidiary**	**Principal activity**
Dongguan Fairform Creative Company Limited *(note (a))**	The PRC	Registered capital HK$8,000,000	100	—	100	Inactive
Dongguan Weihang Electrical Product Company Limited *(note (b))*	The PRC	Registered capital US$9,000,000	100	—	100	Manufacture and trading of healthcare and household products
eForce Management Limited	Hong Kong	2 ordinary shares of HK$1 each	100	100	—	Provision of management services
eForce Project Services Limited	British Virgin Islands ("BVI")	1 share of US$1	100	100	—	Provision of management consultancy services

Notes to the Financial Statements

For the year ended 31 December 2005

17. Interests in Subsidiaries *(Continued)*

Name of company	Place of incorporation and operation	Particulars of issued share and paid up capital	Percentage of ownership interest: Group's effective holding	Held by the Company	Held by subsidiary	Principal activity
Fairform Group Limited	BVI	15,700,200 shares of US$1 each	100	100	—	Investment holding
Fairform Holdings Limited	Hong Kong	2 ordinary shares of HK$1 each	100	100	—	Name holding
Fairform Information Technology Limited	Hong Kong	600,000 ordinary shares of HK$1 each	100	—	100	Dormant
Fairform Manufacturing Company Limited	Hong Kong	138,750,000 ordinary shares of HK$1 each and 250,000 non-voting deferred shares of HK$1 each	100	—	100	Manufacture and trading of healthcare and household products
Gainford International Inc.	BVI	50 shares of US$1 each	100	—	100	Investment holding
Gofull Investments Limited	BVI	1 share of US$1	100	100	—	Investment holding
New Hong Kong Industrial Company Limited	Hong Kong	2 ordinary shares of HK$1 each and 300,000 non-voting deferred shares of HK$1 each	100	—	100	Investment holding
Oasis Global Limited	BVI	10 shares of US$1 each	100	—	100	Trademark holding
Palm Beach Holdings Limited	Republic of Mauritius	1 share of US$1	100	—	100	Investment holding
Pro-Tek Electroforming Limited	Hong Kong	200,000 ordinary shares of HK$1 each	100	—	100	Dormant
Qesco International (H.K.) Ltd	Hong Kong	1,000,000 ordinary shares of HK$1 each	100	—	100	Trademark holding

Notes to the Financial Statements

For the year ended 31 December 2005

17. Interests in Subsidiaries *(Continued)*

Name of company	Place of incorporation and operation	Particulars of issued share and paid up capital	Percentage of ownership interest: Group's effective holding	Held by the Company	Held by subsidiary	Principal activity
Successful Mode Investments Limited	BVI	1 share of US$1	100	100	—	Investment holding
Top Harvest Industrial Limited	Hong Kong	3,300,000 ordinary shares of HK$1 each and 2,700,000 non-voting deferred shares of HK$1 each	100	—	100	Investment holding

* *For identification purpose only*

Notes:

(a) Dongguan Fairform Creative Company Limited is a wholly foreign owned enterprise with an operating period of 12 years expiring on 8 September 2017.

(b) Dongguan Weihang Electrical Product Company Limited is a wholly foreign owned enterprise with an operating period of 30 years expiring on 10 April 2024.

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 liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. Interests in Associates

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net assets	**—**	1,911
Goodwill	**15,720**	15,720
Less: Impairment loss	**(12,266)**	—
	3,454	17,631
Amounts due to associates	**(1,454)**	(1,454)
	2,000	16,177

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For the year ended 31 December 2005

18. Interests in Associates *(Continued)*

Amounts due to associates are unsecured, interest-free and will not be repayable within the next twelve months. The following list contains the particulars of associates, all of which are unlisted corporate entities:

Name of associate	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by subsidiary	Principal activity
Chinese 2 Linux (Holdings) Limited ("C2L")	BVI	9,000 ordinary shares of US$1 each	42.5	42.5	Development and sale of enterprise applications software
Dynasty L.L.C.	United States of America	140,000 ordinary shares of US$1 each	50	50	Dormant
Esterham Enterprise Inc.	BVI	2 ordinary shares of US$1 each	50	50	Dormant

The following illustrates the summarised financial information of the Group's associates:

	2005	2004
	HK$'000	*HK$'000*
Balance sheet:		
Total assets	**24,593**	29,073
Total liabilities	**(29,447)**	(24,576)
Net (liabilities)/assets	**(4,854)**	4,497
Revenue and losses:		
Revenue	**7,226**	2,713
Losses	**9,351**	18,849

Unrecognised share of the associates' losses were approximately HK$2,063,000 for the year ended 31 December 2005 (2004: HK$Nil).

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19. Other Non-Current Assets

It represented a quality guarantee deposit paid to China Infohighway Communications Co., Ltd. ("IHW") pursuant to Cooperation Agreement and Supplemental Agreements (collectively "the Agreements") entered into between the Group and IHW on 19 December 2001. Under the Agreements the Group agreed to provide certain equipment and facilities as necessary for IHW's network infrastructure for a facility fee. In the event that the Group fails to provide the required equipment and facilities, IHW can make use of the deposit to purchase the required equipment and facilities. The deposit was unsecured, non-interest bearing and is repayable upon the expiry of the Agreements on 21 July 2019.

However, owing to the difficulty and complexity in securing a telecommunications service-operating permit in the PRC, the Group had decided to suspend the cooperation projects. The directors are currently negotiating a refund of the deposit with IHW but has been unable to reach an agreement.

As the recoverability of the deposit was uncertain, the directors considered that it is prudent to make full allowance of impairment of HK$44,933,000 against the deposit.

20. Investment Securities

	Group	
	2005	2004
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at cost	—	11,000
Less: Impairment	—	(4,731)
	—	6,269
Market value of listed equity securities	—	6,269

In accordance with HKAS 39, investment securities were redesignated on 1 January 2005 as available-for-sale securities and stated at fair value *(note 21)*.

Notes to the Financial Statements

For the year ended 31 December 2005

21. Available-for-Sale Securities

	Group	
	2005	2004
	HK$'000	*HK$'000*
At beginning of year	**6,269**	—
Change in fair value and impairment	**(1,791)**	—
Equity securities listed in Hong Kong, at market value	**4,478**	—

The Group's available-for-sale securities was non-current in nature and represented 74,632,500 ordinary shares of MegaInfo Limited at HK$0.06 each.

Following the adoption of HKAS 39 in 2005, certain financial assets were designated as available-for-sale securities on 1 January 2005.

22. Inventories

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**7,982**	12,411
Work in progress	**7,127**	3,654
Finished goods	**2,931**	1,244
	18,040	17,309

Notes to the Financial Statements

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23. Trade and Other Receivables

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors and bills receivables *(note (a))*	**16,021**	9,301	**—**	—
Other debtors, deposits and prepayments	**4,430**	3,706	**22**	155
Amounts due from associates *(note (b))*	**21**	24	**—**	—
	20,472	13,031	**22**	155

Notes:

(a) An ageing analysis of trade debtors and bills receivables (net of specific allowance for bad and doubtful debts) is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current	**12,710**	6,839
1 to 3 months overdue	**3,067**	2,206
More than 3 months overdue but less than 12 months overdue	**105**	97
More than 12 months overdue	**139**	159
	16,021	9,301

Trade debts are due within 30 days from the date of billing.

(b) Amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

24. Cash and Bank Balances

At 31 December 2005, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,299,000 (2004: HK$508,000). RMB is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

Notes to the Financial Statements

For the year ended 31 December 2005

25. Loans from Financial Institutions

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Loans from financial institutions				
— unsecured *(note (a))*	**8,249**	7,386	**8,249**	7,386
— secured *(note (b))*	**8,269**	8,585	**—**	—
	16,518	15,971	**8,249**	7,386

Notes:

(a) The unsecured loan represents a revolving loan facilities to 31 March 2006 of HK$30 million, interest bearing at 3% per annum over the prevailing prime lending rate offered by The Hongkong and Shanghai Banking Corporation Limited. As at 31 December, approximately HK$8.2 million (2004: HK$7.4 million) has been utilised. Subsequent after the year end, the revolving loan facilities was extended to 31 March 2007 with the loan facilities remained at HK$30 million.

(b) The secured loan is interest bearing at 6.264% per annum and is secured over the Group's leasehold land and buildings held for own use situated outside Hong Kong with a carrying value of approximately HK$16 million (2004: HK$17 million).

26. Unsecured Other Loans

On 1 February 2000, pursuant to a placing and underwriting agreement dated 16 December 1999 entered into between the Company and independent placing agents, 4% convertible notes with an aggregate principal amount of HK$9 million were issued (the "Notes"). The Notes were convertible to ordinary shares of HK$0.05 each of the Company at any time between 1 April 2000 and 27 January 2002 and Notes of HK$2.5 million were subsequently converted during 2000.

Prior to maturity, holders of the remaining Notes of approximately HK$6.5 million had not exercised the conversion right, therefore, the directors of the Company consider that the conversion right attaching to the Notes had lapsed. The Notes should be regarded as unsecured other loans and the outstanding balances together with accrued interest of approximately HK$7.5 million are due for repayment. As at the date of authorisation for issue of the financial statements, the Notes holders have not yet requested the Company to repay the loans.

Notes to the Financial Statements

For the year ended 31 December 2005

27. Trade and Other Payables

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade creditors *(Note (a))*	**23,339**	21,263	**—**	—
Other creditors and accrued charges	**44,827**	30,080	**4,786**	4,598
Amount due to a substantial shareholder *(note (b))*	**40**	40	**40**	40
Amount due to an associate *(Note (b))*	**—**	605	**5,515**	5,215
Amounts due to directors *(Note (b))*	**10,122**	5,318	**—**	—
	78,328	57,306	**10,341**	9,853

Notes:

(a) An ageing analysis of trade creditors is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Due within 1 month or on demand	**13,576**	12,248
Due after 1 month but within 3 months	**7,157**	7,071
Due after 3 months but within 6 months	**1,323**	681
Due after 6 months	**1,283**	1,263
	23,339	21,263

(b) Amount due to a substantial shareholder, an associate and amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31 December 2005

28. Employee Benefits

(a) Employee retirement benefits

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employee employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5% — 10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000 except for certain senior staff. Mandatory contributions to the scheme vest immediately.

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("Plans") organised by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other material obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

(b) Equity compensation benefits

The Company has a share option scheme which was adopted on 2 June 1997 whereby the directors of the Company are authorised to invite employees of the Group, including the directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices per share on the SEHK for the five business days immediately preceding the date of grant. The options vest after one year from the date of grant and are then exercisable within a period of ten years thereafter. Each option gives the holder the right to subscriber for one share. With effect from 1 September 2001, the Company needs to revise the terms of the existing scheme to comply with the requirements of Chapter 17 of the Main Board Listing Rules if the Company wishes to continue to grant options under the existing scheme.

Notes to the Financial Statements

For the year ended 31 December 2005

28. Employee Benefits *(Continued)*

(b) Equity compensation benefits *(Continued)*

Movements in share options are as follows:

	Number	
	2005	2004
At 1 January	**30,780,000**	36,180,000
Cancelled	**—**	(5,400,000)
At 31 December — options vested	**30,780,000**	30,780,000

The outstanding share options at the balance sheet dates were granted on 10 July 2000 and are exercisable for a period commencing from 10 July 2001 to 9 July 2010 at an exercise price of $0.392 per share. No other share options previously granted were exercised during the year.

29. Deferred Taxation

No provision for deferred taxation has been made in the financial statements as the tax effect of taxable temporary differences is immaterial to the Group.

No deferred tax assets in respect of tax losses have been recognised as it is not probable that future profits will be available against which the assets can be utilised. Major components of unprovided deferred tax assets by the Company and the Group are set out below:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Tax losses	**25,405**	25,823	**4,971**	4,546

Notes to the Financial Statements

For the year ended 31 December 2005

30. Share Capital

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
6,000,000,000 ordinary shares of $0.05 each	**300,000**	300,000

	2005		2004	
	No. of shares	**Amount**	No. of shares	Amount
		HK$'000		*HK$'000*
Issued and fully paid:				
At 1 January	**1,937,826,789**	**96,891**	1,933,706,789	96,685
Shares issued upon exercise of warrants *(note (a))*	**—**	**—**	4,120,000	206
At 31 December	**1,937,826,789**	**96,891**	1,937,826,789	96,891

Note:

(a) Pursuant to the Company's announcement dated 6 November 2003, the Company issued 370,000,000 warrants ("2004 Warrants") at a placing price of HK$0.07 per warrant by private placement to not less than 100 selected independent investors on 27 November 2003. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.05 each of the Company at an initial subscription price of HK$0.28 (subject to adjustment) during the one-year period from the date of issue. The net proceeds of approximately HK$24.5 million were used for repayment of loans from financial institutions. Dealing in the 2004 Warrants on the SEHK commenced on 10 December 2003.

During the year ended 31 December 2004, registered holders of 4,120,000 units of 2004 Warrants exercised their rights to subscribe for 4,120,000 ordinary shares at a consideration of HK$1,154,000, of which HK$206,000 was credited to share capital and the balance of HK$948,000 was credited to the share premium account.

The trading of 2004 Warrants on the SEHK had ceased after 2 December 2004 and the listing of the 2004 Warrants on the SEHK was withdrawn from 4 December 2004. The subscription rights attaching to 2004 Warrants had expired on 7 December 2004. The Company had 365,880,000 outstanding 2004 Warrants not exercised.

Notes to the Financial Statements

For the year ended 31 December 2005

31. Reserves

(a) Group

	Share premium *HK$'000*	Exchange reserves *HK$'000*	Warrant reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2004	1,391,021	(1,840)	24,498	(1,494,183)	(80,504)
Shares issued upon exercise of warrants *(note 30(a))*	948	—	—	—	948
Release of warrant proceeds upon exercise of warrants *(Note 30(a))*	272	—	(272)	—	—
Exchange differences on translating foreign operations	—	98	—	—	98
Loss for the year	—	—	—	(21,415)	(21,415)
At 31 December 2004	1,392,241	(1,742)	24,226	(1,515,598)	(100,873)
At 1 January 2005	1,392,241	(1,742)	24,226	(1,515,598)	(100,873)
Exchange differences on translating foreign operations	—	(190)	—	—	(190)
Loss for the year	—	—	—	(27,223)	(27,223)
At 31 December 2005	1,392,241	(1,932)	24,226	(1,542,821)	(128,286)

Included in the figure for the accumulated losses is an amount of HK$11,701,000 (2004: HK$9,790,000), being the accumulated losses attributable to associates.

Notes to the Financial Statements

For the year ended 31 December 2005

31. Reserves *(Continued)*

(b) Company

	Share premium	Contributed surplus	Warrant reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	1,391,021	9,354	24,498	(1,505,377)	(80,504)
Shares issued upon exercise of warrants *(note 30(a))*	948	—	—	—	948
Release of warrant proceeds upon exercise of warrants *(note 30(a))*	272	—	(272)	—	—
Loss for the year	—	—	—	(65,116)	(65,116)
At 31 December 2004	1,392,241	9,354	24,226	(1,570,493)	(144,672)
At 1 January 2005	1,392,241	9,354	24,226	(1,570,493)	(144,672)
Loss for the year	—	—	—	(1,771)	(1,771)
At 31 December 2005	1,392,241	9,354	24,226	(1,572,264)	(146,443)

The contributed surplus of the Company arose as a result of the Group's reorganisation carried out on 31 May 1997 and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor.

Under the Bye-laws of the Company, the share premium is not distributable but may be applied in paying up unissued shares of the Company to be issued to shareholders of the Company as fully paid bonus shares.

Under The Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, issued share capital and reserves.

The warrant reserve represents the proceeds received from the issue of the 2004 Warrants (note 30(a)), net of warrant issue expenses. The reserve will be released to the share capital and share premium accounts upon exercise of the 2004 Warrants.

Notes to the Financial Statements

For the year ended 31 December 2005

32. Operating Lease Commitments

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**2,743**	2,455
In the second to fifth year inclusive	**732**	1,920
After five years	**7,835**	7,869
	11,310	12,244

The Group leases a number of properties under operating leases. The leases run for an initial period from 1.5 to 50 years, with an option to renew the lease and renegotiate the terms at the expiry date or dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

33. Commitments

At 31 December 2005, the Group has the following capital commitments outstanding and not provided for in the financial statements:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Contracted for:		
Quality guarantee deposit	**17,500**	17,500
Purchases of fixed assets	**—**	586
	17,500	18,086

Notes to the Financial Statements

For the year ended 31 December 2005

34. Contingent Liabilities

(a) In October 1999, Mersongate Holdings Limited, an independent third party (the "Plaintiff"), commenced an action against (1) Mr. Huen Raico Hing Wah, a former director of the Company; (2) Central Growth Limited and Bridal Path Corporation, former substantial shareholders of the Company; and (3) the Company (collectively the "Defendants"), alleging that the Defendants have agreed to certain arrangements in relation to the share capital of the Company, including certain rights of the Plaintiff to participate in the share capital of the Company, and that the Defendants have failed to perform their respective obligations under the arrangements, and claiming specific performance or, alternatively, damages. The Company has no knowledge of and is not a party to the alleged arrangements. The Company has filed a defence against the claim and the directors of the Company consider that no provision for the claim is necessary.

(b) At 31 December 2005, the Company had provided corporate guarantee to the extent of HK$19,000,000 (2004: HK$10,000,000) for banking facilities granted to a subsidiary, which were utilised to the extent of HK$1.57 million (2004: HK$1.64 million).

35. Related Party Transactions

(a) During the year ended 31 December 2005, the Group was granted financial assistance from a substantial shareholder. At 31 December 2005, included in trade and other payables is an amount due to a substantial shareholder of HK$40,000 (2004: HK$40,000) is unsecured, interest-free and has no fixed terms of repayment.

(b) The compensation to Group's key management personnel is disclosed in note 11 to the financial statement.

36. Event after the Balance Sheet Date

On 23 March 2006, the Company entered into a sale and purchase agreement with an independent third party for the disposal of its entire issued share capital of Successful Mode Investments Limited, a wholly owned subsidiary of the Company and its entire interest, being 42.5% of the issued capital in C2L for a consideration of HK$2 million. An impairment loss of HK$12,266,000 was recognised in current year in bringing the carrying value of the interest in associate in C2L to HK$2 million.

37. Approval of Financial Statements

The financial statements on pages 25 to 75 were approved and authorised for issue by the Board on 24 April 2006.