1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

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

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries, associates and jointly controlled entities are set out in notes 47, 48 and 49, respectively.

2. PRIOR YEAR ADJUSTMENT

On 7 December 2004, the Company together with certain subsidiaries ("Borrowers") entered into a debt restructuring deed ("Deed") with Bank of China (Hong Kong) Limited ("BOC") for the purpose of restructuring the Group's debts due to BOC. Conditional upon compliance with the terms of the Deed, BOC agreed to waive debts of HK$193,520,000. This amount was recognised as income in the consolidated income statement for the year ended 31 December 2004. However, the Company's auditors considered that not until such time as the conditions set out in the terms of the Deed have been fully complied with, it is not appropriate to recognise the waiver as income. The net assets as at 31 December 2004 and the profit for the year then ended as stated in the consolidated financial statements of the Group for the year ended 31 December 2004 should be reduced by that amount. Therefore, the recognition of waiver of HK$193,520,000 was qualified in the consolidated financial statements for the year ended 31 December 2004.

On 21 December 2005, the Borrowers entered into a supplemental agreement with BOC to revise the terms of the Deed ("Supplemental Agreement"). Pursuant to the terms of the Supplemental Agreement, the waived debts were reduced to HK$176,024,000. The directors of the Company are of the opinion that since the conditions attached to the Supplemental Agreement are satisfied and a confirmation from the legal counsel opining that the Group has been fully released/discharged from all obligations relating to the waived amount upon the execution of the Supplemental Agreement being effective, it is therefore more appropriate to reverse the waiver of debts of HK$193,520,000 recognised for the year ended 31 December 2004 and to recognise the waiver of debts of HK$176,024,000 in the current year.

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

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

Business combinations

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

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised the negative goodwill of HK$347,000 on 1 January 2005 with a corresponding decrease in accumulated losses. (See Note 4 for the financial impact.)

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment property" ("HKAS 40"). The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group's accumulated losses. (See Note 4 for the financial impact.)

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 "Income taxes – recovery of revalued non-depreciable assets" ("HK(SIC) Interpretation 21") which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. However, the adoption of HK(SIC) Interpretation 21 does not have any significant impact on the result of the prior year and no prior year adjustment is necessary.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" ("HKAS 32") and HKAS 39 "Financial instruments: Recognition and Measurement" ("HKAS 39"). HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

By 31 December 2004, the Group classified and measured its 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", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any).

From 1 January 2005 onwards, the Group classifies and measures its 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", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification and measurement of financial assets and financial liabilities (continued)

On 1 January 2005, the Group reclassified its investments in securities with a carrying amount of HK$227,029,000 to available-for-sale investments. (See Note 4 for the financial impact.)

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases" ("HKAS 17"). Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The change in accounting policy has been applied retrospectively. Accordingly, the leasehold interests in land are reclassified to prepaid lease payments under operating lease. (See Note 4 for the financial impact.)

4. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

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

	As at 31 December 2004 (before applications of the new HKFRSs but after prior year adjustment) (see note 2)	Adjustments	As at 31 December 2004 (restated)	Adjustments	As at 1 January 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items					
Property, plant and equipment (note a)	804,091	(60,886)	743,205	–	743,205
Prepaid lease payments (note a)	–	60,886	60,886	–	60,886
Available-for-sale investments (note b)	–	–	–	227,029	227,029
Investments in securities (note b)	227,029	–	227,029	(227,029)	–
Total effects on assets and liabilities	1,031,120	–	1,031,120	–	1,031,120
Accumulated losses (note c and d)	(2,344,725)	–	(2,344,725)	13,257	(2,331,468)
Investment property revaluation reserve (note c)	12,910	–	12,910	(12,910)	–
Negative goodwill reserve (note d)	347	–	347	(347)	–
Total effect on equity	(2,331,468)	–	(2,331,468)	–	(2,331,468)

There was no financial effect on the application of new HKFRSs to the Group's equity at 1 January 2004 or the result of the Group for the current or prior year.

Notes:

(a) Upon the adoption of HKAS 17, the leasehold interests in land were reclassified to prepaid lease payments under operating leases.

(b) Upon the adoption of HKAS 39, the investments in securities was reclassified as available-for-sale investments.

(c) Upon the adoption of HKAS 40, the Group has applied the relevant transitional provisions in HKAS 40. The amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group's accumulated losses.

(d) Upon the adoption of HKFRS 3, the Group has applied the relevant transitional provisions in HKFRS 3. The amount held in negative goodwill reserve at 1 January 2005 has been transferred to the Group's accumulated losses.

4. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not early applied the following Standards and Interpretations that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [5]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.
[5] Effective for annual periods beginning on or after 1 May 2006.

The directors of the Company anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, except for certain properties and financial instruments, which are measured at revalued amounts or fair value, as explained in accounting policies set out below.

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

Basis of consolidation

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

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

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

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

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and purchase consideration in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

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

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

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Financial instruments

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including bank and other borrowings, trade payables, other payables, balance due to associates, obligation under finance leases and amount due to a major shareholder are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Revenue recognition

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

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

Sales of properties are recognised on the execution of legally binding, unconditional and irrevocable contracts.

Service income is recognised when services are rendered.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the term of the relevant lease.

Property, plant and equipment

Property, plant and equipment (other than properties under development) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired lease term
Buildings	4% or over the term of lease, whichever is shorter
Plant and equipment	5% – 15%
Others	6% – 25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

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

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight line basis over the lease term. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Foreign currencies

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the exchange rate prevailing at the balance sheet date. Exchange difference arising are recognised in the translation reserve.

Research and development expenses

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

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

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

Inventories

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

Impairment

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

Contributions to retirement benefits schemes are charged to the consolidated income statement as an expense.

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 consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary difference arising on investments in subsidiaries and interests in a jointly controlled entity, 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 is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

All borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 5, management has made the following judgment that have significant effect on the amounts recognised in the consolidated 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 also discussed below.

Trade receivables

Note 5 describes that trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

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

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial assets and liabilities include bank balances and cash, equity investments, borrowings, trade and other receivables, loans receivable, trade and other payables and pledged bank deposits. 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.

Credit risk

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

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Credit risk (continued)

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

Currency risk

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

Price risk

The Group's available-for-sale investments and held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity and debt security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Fair value interest rate risk

The Group's fair value interest rate risk relates to its fixed-rate borrowings. However, the management considered the risk is insignificant to the Group.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings. The Group currently does not have any policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

8. TURNOVER AND COST OF SALES AND SERVICES

(a) Turnover represents the gross invoiced sales of goods less discounts and returns, proceeds on sales of properties, rental income, interest income and investment income as follows:

	2005	2004
	HK$'000	HK$'000
		(restated)
Continuing operations		
Sales of goods	**1,221,778**	1,027,291
Proceeds on sales of properties	**359,810**	33,938
Rental income	**21,270**	24,528
Interest income	**7,317**	2,239
	1,610,175	1,087,996
Discontinued operation (note 17)		
Sales of goods	**170,763**	322,244
	1,780,938	1,410,240

(b) Cost of sales and services includes an amount of HK$12,033,000 (2004: HK$19,371,000), net of allowance of HK$3,046,000 (2004: HK$1,537,000), being reversal of allowance for obsolete inventories which were recovered through sales.

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and contribution to trading results, analysed by principal activity, were as follows:

(a) Business segments:

Segment information in respect of turnover for the year ended 31 December 2005 is presented below:

CONSOLIDATED INCOME STATEMENT

	External sales HK$'000	**Inter-segment sales** HK$'000	**Total turnover** HK$'000
TURNOVER			
Manufacturing			
Plastic products	483,656	66,519	550,175
Liquid crystal display	133,398	–	133,398
Printed circuit boards	165,426	–	165,426
Intelligent chargers and security system	429,359	61	429,420
Property	381,080	11,243	392,323
Trading	9,939	–	9,939
Finance	7,317	45,490	52,807
	1,610,175	123,313	1,733,488
Elimination	–	(123,313)	(123,313)
Consolidated total from continuing operations	1,610,175	–	1,610,175

Inter-segment sales are charged at prevailing market prices.

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of the results for the year ended 31 December 2005 is presented below:

RESULTS FROM CONTINUING OPERATIONS

	Amount HK$'000
Manufacturing	
Plastic products	41,289
Liquid crystal display	10,882
Printed circuit boards	30,694
Intelligent chargers and security system	58,661
Other products	(1,683)
Property	168,534
Trading	(781)
Finance	13,252
	320,848
Elimination	(64,920)
Total segment results	255,928
Unallocated corporate income	76,647
Unallocated corporate expenses	(44,269)
	288,306
Finance costs	(39,289)
Share of results of associates (note)	274
Share of results of jointly controlled entities	(9,125)
Gain on disposal of subsidiaries	876
Reversal of allowance for amounts due from related companies	5,450
Reversal of allowance for amounts due from jointly controlled entities	2,977
Gain on disposal of associates	69,164
Profit before taxation	318,633
Taxation	(1,506)
Profit for the year	317,127

Note:

Share of results of associates:

Manufacturing	
Telecommunication products	274

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of consolidated balance sheet at 31 December 2005 is presented below:

CONSOLIDATED BALANCE SHEET

	Segment assets HK$'000	Interests in associates HK$'000	Interests in jointly controlled entities HK$'000	Total HK$'000
ASSETS				
Manufacturing				
Plastic products	358,749	–	–	358,749
Liquid crystal display	128,380	–	–	128,380
Audio-video products	52,108	–	–	52,108
Printed circuit boards	157,101	–	–	157,101
Intelligent chargers and security system	183,146	–	–	183,146
Other products	50,507	–	69,410	119,917
Property	445,930	–	–	445,930
Trading	151,801	8,027	–	159,828
Finance	371,725	–	–	371,725
	1,899,447	8,027	69,410	1,976,884
Unallocated corporate assets				121,521
Consolidated total assets				2,098,405

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

***CONSOLIDATED BALANCE SHEET** (continued)*

	Segment liabilities HK$'000
LIABILITIES	
Manufacturing	
Plastic products	133,476
Liquid crystal display	37,262
Audio-video products	47,134
Printed circuit boards	46,230
Intelligent chargers and security system	85,133
Other products	10,304
Property	27,527
Trading	164,469
Finance	217,765
	769,300
Unallocated corporate liabilities	248,781
Consolidated total liabilities	1,018,081

OTHER INFORMATION

	Capital additions HK$'000	Depreciation HK$'000	Impairment losses HK$'000	Fair value changes of investment properties HK$'000	Reversal of allowance for obsolete inventories HK$'000	Allowance for doubtful debts HK$'000	(Loss) gain on disposal of property, plant and equipment HK$'000
Manufacturing	69,227	41,832	4,689	–	12,033	4,333	(17,767)
Property	1,261	9,378	–	1,679	–	25	(175)
Trading	227	682	–	–	–	–	(5)
Finance	–	–	–	–	–	–	–
Others	5,006	2,860	–	–	–	–	1,575
Consolidated total	75,721	54,752	4,689	1,679	12,033	4,358	(16,372)

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of turnover for the year ended 31 December 2004 is presented below:

CONSOLIDATED INCOME STATEMENT

	External sales HK$'000	Inter-segment sales HK$'000	Total turnover HK$'000
TURNOVER			
Manufacturing			
Plastic products	450,114	28,208	478,322
Liquid crystal display	82,176	–	82,176
Printed circuit boards	125,785	–	125,785
Intelligent chargers and security system	321,478	415	321,893
Other products	571	–	571
Property	58,466	10,123	68,589
Trading	47,167	–	47,167
Finance	2,239	7,546	9,785
	1,087,996	46,292	1,134,288
Elimination	–	(46,292)	(46,292)
Consolidated total from continuing operations	1,087,996	–	1,087,996

Inter-segment sales are charged at prevailing market prices.

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of the results for the year ended 31 December 2004 is presented below:

RESULTS FROM CONTINUING OPERATIONS

	Amount HK$'000
Manufacturing	
Plastic products	45,788
Liquid crystal display	2,539
Printed circuit boards	19,606
Intelligent chargers and security system	34,094
Other products	(7,101)
Property	77,518
Trading	2,276
Finance	(356,666)
	(181,946)
Elimination	(20,807)
Total segment results	(202,753)
Unallocated corporate income	119,489
Unallocated corporate expenses	(49,144)
	(132,408)
Finance costs	(50,102)
Share of results of associates (note)	(102)
Share of results of jointly controlled entities	(9,996)
Gain on deemed disposal/disposal of subsidiaries	65,806
Allowance for amounts due from jointly controlled entities	(26,949)
Gain on deemed disposal of an associate	11,590
Loss before tax	(142,161)
Taxation	397
Loss for the year	(141,764)

Note:

Share of results of associates:

Manufacturing	
Telecommunication products	1,973
Other products	(627)
Trading	13
Others	(1,461)
	(102)

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of consolidated balance sheet at 31 December 2004 is presented below:

CONSOLIDATED BALANCE SHEET

	Segment assets	Interests in associates	Interests in jointly controlled entities	Total
	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS				
Manufacturing				
Plastic products	309,334	–	–	309,334
Liquid crystal display	92,967	–	–	92,967
Audio-video products	150,289	–	–	150,289
Printed circuit boards	127,516	–	–	127,516
Telecommunication products	–	79,747	–	79,747
Intelligent chargers and security system	162,498	–	–	162,498
Other products	72,595	–	78,535	151,130
Property	623,712	–	–	623,712
Trading	84,115	7,876	–	91,991
Finance	458,621	–	–	458,621
Others	–	7,344	–	7,344
	2,081,647	94,967	78,535	2,255,149
Unallocated corporate assets				286,529
Consolidated total assets				2,541,678

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

CONSOLIDATED BALANCE SHEET (continued)

	Segment liabilities HK$'000
LIABILITIES	
Manufacturing	
Plastic products	97,203
Liquid crystal display	22,915
Audio-video products	101,985
Printed circuit boards	45,616
Intelligent chargers and security system	115,495
Other products	73,709
Property	88,232
Trading	69,963
Finance	423,042
Others	–
	1,038,160
Unallocated corporate liabilities	726,304
Consolidated total liabilities	1,764,464

OTHER INFORMATION

	Capital additions HK$'000	Depreciation HK$'000	Reversal of impairment losses HK$'000	Fair value changes of investment properties HK$'000	Reversal of allowance for obsolete inventories HK$'000	Allowance for loans receivable HK$'000	Allowance for doubtful debts HK$'000	Gain (loss) on disposal of property, plant and equipment HK$'000
Manufacturing	65,985	33,560	–	100	19,371	–	3,622	3,006
Property	1,297	8,346	–	60,798	–	–	983	(121)
Trading	19	664	–	–	–	–	–	–
Finance	–	–	–	–	–	369,239	–	–
Others	345	5,254	93,104	–	–	–	750	–
Consolidated total	67,646	47,824	93,104	60,898	19,371	369,239	5,355	2,885

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments:

(i) The following table provides an analysis of the Group's turnover and profit from continuing operations by geographical market:

	Turnover by geographical market		Profit from operations	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**1,360,012**	642,909	**206,928**	(231,839)
The People's Republic of China, other than Hong Kong (the "PRC")	**250,163**	445,087	**49,000**	29,086
	1,610,175	1,087,996	**255,928**	(202,753)
Unallocated corporate income			**76,647**	119,489
Unallocated corporate expenses			**(44,269)**	(49,144)
			288,306	(132,408)
Finance costs			**(39,289)**	(50,102)
Share of results of associates			**274**	(102)
Share of results of jointly controlled entities			**(9,125)**	(9,996)
Gain on disposal/deemed disposal of subsidiaries			**876**	65,806
Reversal of allowance for amounts due from related companies			**5,450**	–
Reversal of (allowance for) amounts due from jointly controlled entities			**2,977**	(26,949)
Gain on disposals/deemed disposal of associates			**69,164**	11,590
Profit (loss) before taxation			**318,633**	(142,161)

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments: (continued)

(ii) The following table provides an analysis of segment assets, and additions to property, plant and equipment, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**1,026,597**	1,513,597	**23,430**	17,051
The PRC	**950,287**	1,028,081	**52,291**	50,595
	1,976,884	2,541,678	**75,721**	67,646

10. WAIVER OF DEBTS

As described in note 2, pursuant to the terms of the Supplemental Agreement, BOC agreed to irrevocably waive the debt of HK$176,024,000 being the difference between the original debt totalling HK$642,280,000 and HK$466,256,000 (being the original restructured loan of HK$435,193,000 ("Original Restructured Loan") plus interest of HK$31,063,000 calculated up to 15 January 2004 ("Accrued Interests")) as stated in the Supplemental Agreement. Accordingly, a prior year adjustment of HK$193,520,000 is made to reverse the waiver of debts recognised in 2004 (see note 2) and a waiver of debts of HK$176,024,000 is recognised as income in the consolidated income statement for the year ended 31 December 2005.

Pursuant to the terms of the Supplemental Agreement, the Original Restructured Loan will be repayable in 11 instalments, the last of which due on 7 December 2010. Upon the prompt payments of these instalments being made, the Accrued Interests will not be repayable. Such financial impact has not been recognised in the consolidated income statement for the year ended 31 December 2005 as the relevant conditions specified in the Supplemental Agreement have not been satisfied.

11. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 12 (2004: 12) directors were as follows.

The other 3 (2004:2) directors have no emoluments for the year.

	Rui Xiaowu	Zhao Liqiang	Zhou Qingquan	Zhao Yuanchang	Wu Hongju	Guo Xianpeng	Lee Hung Sang	Chow Chan Lum, Charles	Luo Zhenbang	Gong Bo	Chen Dingyi	Chan Ching Har, Eliza	Wang Yujun	Li Jinsheng	Xu Shilong	2005
	HK'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Directors' fees																
Executives	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executives	–	–	–	–	–	–	115	165	100	15	–	–	–	–	–	395
	–	–	–	–	–	–	115	165	100	15	–	–	–	–	–	395
Other emoluments																
Salaries and other benefits	–	1,072	872	872	872	872	–	–	–	–	716	115	745	–	–	6,136
Bonuses	–	515	387	307	387	387	–	–	–	–	1,289	–	295	–	–	3,567
	–	1,587	1,259	1,179	1,259	1,259	–	–	–	–	2,005	115	1,040	–	–	9,703
Total emoluments	–	1,587	1,259	1,179	1,259	1,259	115	165	100	15	2,005	115	1,040	–	–	10,098

Note: The bonus are determined with reference to the operating results, individual performance and comparable market statistics during both years.

11. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS
(continued)

(a) Directors' emoluments (continued)

	Rui Xiaowu	Zhao Liqiang	Zhou Qingquan	Zhao Yuanchang	Wu Hongju	Guo Xianpeng	Zhang Tao	Lee Hung Sang	Chow Chan Lum, Charles	Luo Zhenbang	Chen Dingyi	Chan Ching Har, Eliza	Li Jinsheng	Xu Shilong	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Directors' fees															
Executives	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executives	–	–	–	–	–	–	–	100	150	1	–	–	–	–	251
	–	–	–	–	–	–	–	100	150	1	–	–	–	–	251
Other emoluments															
Salaries and other benefits	717	258	842	842	842	775	238	–	–	–	716	–	–	–	5,230
Bonuses	–	60	171	171	171	164	–	–	–	–	1,154	150	–	–	2,041
	717	318	1,013	1,013	1,013	939	238	–	–	–	1,870	150	–	–	7,271
Total emoluments	717	318	1,013	1,013	1,013	939	238	100	150	1	1,870	150	–	–	7,522

(b) Highest paid individuals' emoluments

During the year, the seven (2004: six) highest paid individuals included five directors (2004: four directors), details of whose emoluments are set out above. The emoluments of the remaining two (2004: two) highest paid individuals were as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**3,026**	2,491
Contributions to retirement benefits scheme	**24**	24
	3,050	2,515

The emoluments of these individuals were within the following bands:

Emoluments band	**Number of individuals**	
	2005	2004
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**1**	–
	2	2

During the year, no emoluments were paid by the Group to the seven (2004: six) highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no director waived any emoluments.

12. FINANCE COSTS

	Continuing operations		Discontinued operations		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest expenses on:						
– bank loans and overdrafts wholly repayable within five years	**29,935**	41,034	**–**	33	**29,935**	41,067
– bank loans not wholly repayable within five years	**651**	8,590	**–**	–	**651**	8,590
– finance lease charges	**605**	478	**–**	–	**605**	478
– other loans wholly repayable within five years	**8,098**	–	**–**	–	**8,098**	–
	39,289	50,102	**–**	33	**39,289**	50,135

13. REVERSAL OF (ALLOWANCE FOR) AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

In 2004, the amounts represented allowances for amounts due from China Aerospace New World Technology Limited ("CANW") and CASIL Science & Technology Development (Shenzhen) Company Limited.

In 2005, the amount represents recovery of bad debts.

14. GAIN ON DISPOSALS/DEEMED DISPOSAL OF ASSOCIATES

On 22 January 2005, the Company resolved to dispose of the entire interest in and the shareholder's loan due from Astrotech Group Limited ("Astrotech") at an aggregate cash consideration of approximately HK$143 million to China Academy of Launch Vehicle Technology ("CALT") which is wholly-owned by China Aerospace Science & Technology Corporation ("CASC"), a substantial shareholder of the Company. Astrotech holds 449,244,000 ordinary shares, representing approximately 44.17% equity interest, in CASIL Telecommunications Holdings Limited ("CASTEL"). The disposal has been duly completed on 10 July 2005 with a gain of approximately HK$62 million.

In 2004, pursuant to a placing and underwriting agreement dated 3 March 2004, CASTEL, a former associate of the Company issued 100,000,000 shares of HK$0.10 each at a placing price of HK$0.41 per share. The Company's interest in this former associate decreased from approximately 49% to 44% after this placement.

15. PROFIT (LOSS) BEFORE TAXATION

	Continuing operations		Discontinued operation		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(restated)		(restated)		(restated)
Profit (loss) before taxation has been arrived at after charging:						
Auditors' remuneration	**2,452**	2,233	**295**	384	**2,747**	2,617
Cost of inventories consumed	**929,137**	745,843	**166,928**	306,282	**1,096,065**	1,052,125
Depreciation on						
– owned assets	**49,645**	40,061	**2,181**	3,865	**51,826**	43,926
– assets held under finance leases	**2,926**	1,867	**–**	–	**2,926**	1,867
Amortisation on prepaid lease payment	**2,070**	2,031	**–**	–	**2,070**	2,031
Loss on disposal of property, plant and equipment	**11,533**	–	**4,839**	–	**16,372**	–
Minimum lease payments paid under operating leases on land and buildings	**3,511**	8,308	**–**	2,367	**3,511**	10,675
Research expenses	**9,210**	1,340	**111**	148	**9,321**	1,488
Total staff costs, including directors' remuneration	**168,283**	129,906	**8,643**	10,932	**176,926**	140,838
and after crediting:						
Gross rental income from						
– land and buildings	**159**	6,217	**–**	–	**159**	6,217
– investment properties	**21,111**	18,311	**–**	–	**21,111**	18,311
	21,270	24,528	**–**	–	**21,270**	24,528
Less: Outgoings	**(2,898)**	(5,009)	**–**	–	**(2,898)**	(5,009)
	18,372	19,519	**–**	–	**18,372**	19,519
Gain on disposal of property, plant and equipment	**–**	2,885	**–**	–	**–**	2,885
Interest income	**7,317**	2,128	**–**	111	**7,317**	2,239
(Allowance) reversal of allowance for obsolete inventories, net of allowance HK$3,046,000 (2004: HK$1,537,000) (note)	**(3,046)**	(1,023)	**15,079**	20,394	**12,033**	19,371

Note: The amounts are included in cost of sales and services.

16. TAXATION

The tax charge (credit) for the year comprise:

	Continuing operations	
	2005	2004
	HK$'000	HK$'000
Current tax:		
Hong Kong Profits Tax	**457**	1,974
PRC Enterprise Income Tax	**10,717**	1,560
	11,174	3,534
Overprovision in previous years:		
Hong Kong Profits Tax	**(91)**	(3,443)
Deferred tax (note 35)	**(9,577)**	(488)
Taxation attributable to the Company and its subsidiaries	**1,506**	(397)

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

	2005	2004
	HK$'000	HK$'000
Profit (loss) before taxation	**318,633**	(142,161)
Tax at Hong Kong Profits Tax of 17.5% (2004: 17.5%)	**55,761**	(24,878)
Tax effect of share of results of associates	**(48)**	1,124
Tax effect of share of results of jointly controlled entities	**1,597**	1,749
Tax effect of expenses not deductible for tax purposes	**22,286**	10,343
Tax effect of income not taxable for tax purpose	**(84,450)**	(43,369)
Tax effect of deferred tax assets not recognised	**15,228**	65,579
Utilisation of tax losses previously not recognised	**(9,192)**	(8,019)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**910**	1,101
Overprovision in prior years	**(91)**	(3,443)
Others	**(495)**	(584)
Tax charge (credit) for the year	**1,506**	(397)

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both years. Taxation arsing in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to relevant laws and regulations in the PRC, the Company's subsidiaries are entitled to exemption from income tax under certain tax holidays and concessions. Income tax was calculated at rates given under the concessions.

17. DISCONTINUED OPERATION

On 13 September 2005, a subsidiary of the Company entered into a sale agreement to dispose of the entire television manufacturing business. The disposal was effected in order to improve the operating profits and performance of the Group. The disposal was completed in February 2006.

The (loss) profit for the year from the discontinued operation is analysed as follows:

	2005 HK$'000	2004 HK$'000
(Loss) profit of television manufacturing operation for the year	**(31,252)**	4,251

The results of the television manufacturing operation for the year ended 31 December 2005 are as follows:

	2005 HK$'000	2004 HK$'000
Turnover	**170,763**	322,244
Cost of sales	**(174,749)**	(306,283)
Other revenue	**3,157**	1,897
Distribution costs	**(3,552)**	(7,039)
Administrative expenses	**(20,770)**	(6,192)
Impairment loss on property, plant and equipment	**(6,101)**	–
Allowance for doubtful debts	**–**	(343)
Finance cost	**–**	(33)
(Loss) profit for the year	**(31,252)**	4,251

During the year, the television manufacturing operation contributed HK$24,644,000 to the Group's operating cash flows (2004: outflow of HK$14,562,000), received HK$3,360,000 (2004: HK$1,255,000) in respect of investing activities and paid HK$33,290,000 (2004: HK$4,606,000) in respect of financing activities.

18. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

The calculation of basic earnings (loss) per share attributable to the ordinary equity holders of the Company for the year is based on the profit for the year of HK$286,403,000 (2004: loss for the year of HK$137,740,000, restated for prior year adjustment as described in note 2) and on 2,142,420,000 shares (2004: 2,142,420,000 shares) in issue during the year. As a result of the prior year adjustment, earnings per share for the year ended 31 December 2004 of HK2.6 cents has been restated as loss per share of HK6.4 cents

From continuing operations

The calculation of the basic earnings (loss) per share from continuing operations attributable to the ordinary equity holders of the Company is based on the profit for the year from continuing operations of HK$317,655,000 (2004: loss for the year from continuing operations of HK$141,991,000) and on 2,142,420,000 shares (2004: 2,142,420,000 shares) in issue during the year.

From discontinued operation

The calculation of the basic (loss) earnings per share from discontinued operations is based on the loss for the year from discontinued operations of HK$31,252,000 (2004: profit for the year from discontinued operation of HK$4,251,000) and on 2,142,420,000 shares (2004: 2,142,420,000 shares) in issue during the year.

19. DIVIDENDS

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: nil).

20. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in Hong Kong	Long term leasehold land and buildings in the PRC	Medium term leasehold land and buildings in the PRC	Properties under development	Plant and equipment	Motor vehicles, furniture and other equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST							
At 1 January 2004	350,758	10,963	379,571	30,494	376,537	190,020	1,338,343
Additions	–	2,990	304	1,150	42,035	21,167	67,646
Reclassification to investment properties	(28,935)	–	–	–	–	–	(28,935)
Reclassifications	–	(10)	16,362	(16,362)	1,300	(1,290)	–
Deemed disposal of subsidiaries	–	–	–	–	–	(2,399)	(2,399)
Disposals	(8,822)	–	–	–	(14,674)	(41,126)	(64,622)
At 31 December 2004	313,001	13,943	396,237	15,282	405,198	166,372	1,310,033
Exchange adjustments	–	270	6,548	49	5,162	1,430	13,459
Reclassification from investment properties	32,759	–	–	–	–	–	32,759
Reclassifications	–	(3,891)	1,030	(3,514)	10,791	(6,900)	(2,484)
Additions	–	12,084	749	1,077	43,380	18,431	75,721
Disposal of subsidiaries	–	–	–	–	(504)	(1,189)	(1,693)
Disposals	(278,006)	(10,012)	(1,176)	–	(88,145)	(73,896)	(451,235)
At 31 December 2005	67,754	12,394	403,388	12,894	375,882	104,248	976,560
DEPRECIATION AND IMPAIRMENT							
At 1 January 2004	236,371	4,811	66,992	–	227,415	143,977	679,566
Charged for the year	3,248	417	10,042	–	23,405	10,712	47,824
Reclassification to investment properties	(12,997)	–	–	–	–	–	(12,997)
Impairment loss (reversal of impairment loss) recognised (note c)	(98,294)	–	(1,412)	–	1,717	4,885	(93,104)
Eliminated on deemed disposal of subsidiaries	–	–	–	–	–	(863)	(863)
Eliminated on disposals	(5,985)	–	–	–	(11,452)	(36,161)	(53,598)
At 31 December 2004	122,343	5,228	75,622	–	241,085	122,550	566,828
Exchange adjustments	–	101	1,053	–	2,671	732	4,557
Charged for the year	2,244	576	11,257	–	30,194	10,481	54,752
Impairment loss (reversal of impairment loss) recognised (note c)	–	–	–	–	5,645	(956)	4,689
Eliminated on disposal of subsidiaries	–	–	–	–	(383)	(1,044)	(1,427)
Eliminated on disposals	(99,603)	(5,610)	(794)	–	(73,230)	(63,953)	(243,190)
At 31 December 2005	24,984	295	87,138	–	205,982	67,810	386,209
NET BOOK VALUES							
At 31 December 2005	42,770	12,099	316,250	12,894	169,900	36,438	590,351
At 31 December 2004	190,658	8,715	320,615	15,282	164,113	43,822	743,205

20. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) The aggregate net book values of the Group's assets held under finance leases at 31 December 2005 amounted to HK$26,248,000 (2004: HK$27,899,000).

(b) The properties under development are held under a medium term lease in the PRC.

(c) The Group reviewed the carrying amounts of property, plant and equipment and identified that certain of the assets have no economic value to the Group. Accordingly, the carrying amounts of those assets are reduced to their respective recoverable amounts, which represent their net selling prices. The net selling prices were determined by reference to the market prices.

21. PREPAID LEASE PAYMENTS

	2005	2004
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong		
Medium-term lease	**62,865**	60,886
Analysed for reporting purposes as:		
Current portion	**2,070**	2,031
Non-current portion	**60,795**	58,855
	62,865	60,886

22. INVESTMENT PROPERTIES

	Long term leasehold investment properties in Hong Kong HK$'000	Medium term leasehold investment properties in Hong Kong HK$'000	Total HK$'000
FAIR VALUE			
At 1 January 2004	17,080	182,465	199,545
Reclassifications from leasehold land and buildings in Hong Kong	–	15,938	15,938
Disposals	(9,430)	(12,111)	(21,541)
Increase in fair value during the year	1,810	71,998	73,808
At 1 January 2005	9,460	258,290	267,750
Reclassifications to leasehold land and buildings in Hong Kong	–	(32,759)	(32,759)
Disposals	(9,460)	(200,100)	(209,560)
Increase in fair value during the year	–	1,679	1,679
At 31 December 2005	–	27,110	27,110

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by Dudley Surveyors Limited, independent qualified professional valuers not connected with the Group. Dudley Surveyors Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The valuation as at 31 December 2004 gave rise to revaluation surplus of HK$73,808,000 of which HK$60,898,000 and HK$12,910,000 have been credited to the consolidated income statement and the investment property revaluation reserve respectively. Upon the adoption of HKAS 40, the amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group's accumulated losses.

23. INTERESTS IN ASSOCIATES

	2005 HK$'000	2004 HK$'000
Cost of investment in associates		
Listed in Hong Kong	–	71,062
Unlisted	**208,484**	222,538
Share of post-acquisition profits, net of dividends received	**45,216**	49,375
Less: Impairment loss recognised	**(245,673)**	(248,008)
	8,027	94,967
Fair value of listed investments	–	186,436

Particulars of the principal associates of the Group at 31 December 2005 are set out in note 48.

Certain associates of the Group were disposed of during the year. The effect of the disposal is summarised as follows:

	2005 HK$'000
Net assets disposed of:	
Interests in associates	**89,701**
Less: Impairment loss recognised	**(2,335)**
Amounts due from associates	**321**
Amounts due to associates	**(13,278)**
	74,409
Realisation of reserves	**185**
	74,594
Gain on disposal of interests in associates	**69,164**
Cash consideration received	**143,758**

24. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005 HK$'000	2004 HK$'000
Cost of unlisted investments in jointly controlled entities	**88,531**	88,531
Share of post-acquisition profits	**(19,121)**	(9,996)
	69,410	78,535

Particulars of the principal jointly controlled entities of the Group at 31 December 2005 are set out in note 49.

The following details have been extracted from the unaudited financial statements of CANW and its subsidiaries ("CANW Group") (being significant jointly controlled entities of the Group):

CANW Group

	2005 HK$'000	2004 HK$'000
Results for the year		
Turnover	**3,953**	1,251
Loss for the year	**18,249**	15,761
Loss for the year attributable to the Group	**9,125**	9,996
Financial position		
Non-current assets	**25,079**	24,527
Current assets	**119,381**	138,575
Current liabilities	**(5,640)**	(6,032)
Net assets	**138,820**	157,070
Net assets attributable to the Group	**69,410**	78,535

25. INVESTMENTS IN SECURITIES

Investment securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investment securities were reclassified to available-for-sale investments under HKAS 39 (see note 4 for details).

	2004 HK$'000
Investment securities:	
– listed in Hong Kong	241,300
– unlisted	568,944
	810,244
Impairment loss recognised for investment securities	
– listed in Hong Kong	161,890
– unlisted	421,325
	583,215
	227,029
Market value of listed investments	46,800

26. AVAILABLE-FOR-SALE INVESTMENTS

	2005 **HK$'000**
Available-for-sale investments:	
– equity securities listed in Hong Kong	**45,864**
– unlisted equity securities	**44,963**
	90,827

As mentioned in note 3, from 1 January 2005 onwards, investment securities have been reclassified to available-for-sale investments in accordance with the requirements to HKAS 39. At 31 December 2004, investment securities amounted to HK$227,029,000.

The unlisted available-for-sale investments represent investments in unlisted equity securities issued by private entities incorporated in the British Virgin Islands. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

The listed available-for-sale investments were stated at fair value which is based on quoted market price.

26. AVAILABLE-FOR-SALE INVESTMENTS (continued)

At 1 January 2005, the directors of the Company reviewed the carrying value of all available-for-sale investments with reference to the fair value and quoted market price, where appropriate and considered that they are unlikely to recover and accordingly an aggregate impairment loss of HK$146,705,000 was recognised in the consolidated financial statements.

27. INVENTORIES

	2005	2004
	HK$'000	HK$'000
Raw materials	**58,250**	103,860
Work-in-progress	**25,686**	31,541
Finished goods	**41,447**	40,361
	125,383	175,762

28. TRADE AND OTHER RECEIVABLES

	2005	2004
	HK$'000	HK$'000
Trade receivables	**195,315**	191,807
Other receivables, deposits and prepayments	**79,427**	43,501
	274,742	235,308

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at 31 December:

	2005	2004
	HK$'000	HK$'000
Within 90 days	**195,315**	189,882
Between 91 – 180 days	**–**	1,925
	195,315	191,807

The fair value of the Group's trade and other receivables at 31 December 2005 approximates to the corresponding carrying amount.

29. LOANS RECEIVABLE

	2005 HK$'000	2004 HK$'000
Fixed-rate loan receivables	**258,077**	261,371
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the balance sheet date)	**258,077**	261,371

Included in the carrying amount of loans receivables as at 31 December 2005 is accumulated impairment loss of HK$369,239,000 (2004: HK$369,239,000).

Loan receivables comprise:

	Maturity date	Collateral	Effective interest rate	Carrying amount 2005 HK$'000	Carrying amount 2004 HK$'000
HKD251,517,000 fixed-rate loan receivable	23 July 1999	Certain properties	15%	**70,269**	70,269
HKD247,000,000 variable-rate loan receivable	23 July 1999	Certain properties	12.5%	**187,808**	191,102
				258,077	261,371

As at 31 December 2005, the fair value of the Group's loan receivables approximates to the carrying amount.

30. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secured bank loans and credit facilities.

The deposits carry fixed interest rate between 4.27% and 4.35% per annum and will be released upon repayment of certain secured bank loans. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

31. TRADE AND OTHER PAYABLES

	2005 HK$'000	2004 HK$'000
Trade payables	**316,776**	254,128
Other payables and accruals	**259,495**	398,955
	576,271	653,083

The following is an aged analysis of trade payables at 31 December:

	2005 HK$'000	2004 HK$'000
Within 90 days	**280,739**	220,331
Between 91 – 180 days	**4,402**	6,537
Between 181 – 365 days	**1,440**	1,819
Between 1 to 2 years	**8,977**	197
Over 2 years	**21,218**	25,244
	316,776	254,128

The fair value of trade and other payables at 31 December 2005 approximates to the corresponding carrying amount.

32. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**8,219**	8,045	**7,692**	7,596
In the second to the fifth year inclusive	**4,096**	7,280	**3,987**	7,084
	12,315	15,325	**11,679**	14,680
Less: Future finance charges	**(636)**	(645)	**N/A**	N/A
Present value of lease obligations	**11,679**	14,680	**11,679**	14,680
Less: Amounts due for settlement within 12 months			**(7,692)**	(7,596)
Amounts due for settlement after 12 months			**3,987**	7,084

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3 years. For the year ended 31 December 2005, the average effective borrowing rate was 5% (2004: 3.97%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payment.

The fair value of the Group's finance lease obligations as at the balance sheet date, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date, approximates to their carrying amount.

33. SECURED BANK LOANS

	2005 HK$'000	2004 HK$'000
Secured bank loans	**208,705**	801,503
Carrying amount repayable:		
On demand or within one year	**16,925**	221,976
More than one year, but not exceeding two years	**91,536**	74,145
More than two years, but not more than five years	**98,476**	133,491
More than five years	**1,768**	371,891
	208,705	801,503
Less: Amounts due within one year shown under current liabilities	**(16,925)**	(221,976)
	191,780	579,527

The secured bank loans carry variable interest at a range from 1.25% to 8% per annum.

The Group's certain investment properties, property, plant and equipment, bank deposits and available-for-sale investments with aggregate net book value of HK$25,420,000 (2004: HK$256,600,000), HK$34,795,000 (2004: HK$227,664,000), HK$139,406,000 (2004: HK$66,612,000) and HK$nil (2004: HK$28,589,000), respectively, were pledged to banks. In 2004, the Company's interest in a listed associate with a market value of HK$186,436,000 and equity interest in a non-wholly owned subsidiary, China Aerospace (Huizhou) Industrial Garden Limited, were also pledged to banks.

The fair value of the Group's secured bank loans approximates to the corresponding carrying amount calculated by discounting their future cash flows at the prevailing market borrowing rate at the balance sheet date for similar borrowings.

As at the balance sheet date, the Group has the following undrawn borrowing facilities:

	2005 HK$'000	2004 HK$'000
Floating rate		
– expiring within one year	**–**	–
– expiring beyond one year	**11,000**	12,000
	11,000	12,000

34. OTHER LOANS

	2005	2004
	HK$'000	HK$'000
Other loans are repayable:		
– within one year	**6,891**	53,931
Other loans comprise:		
Loan from a subsidiary of a substantial shareholder (note a)	**–**	47,170
Loans from third parties (note b)	**6,891**	6,761
	6,891	53,931

Notes:

(a) On 22 March 2004, the Group borrowed a loan with a principal of RMB50,000,000 from CASC. The loan was unsecured, carried interest from 5.09% to 5.27% per annum and repayable on 25 September 2004. The loan was fully repaid in July 2005.

(b) Loans from third parties represent advances from independent third parties. The amounts are unsecured, non-interest bearing and are repayable on demand.

35. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior periods:

	Accelerated tax depreciation	**Others**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2004	20,862	(2,843)	18,019
(Credit) charge to income for the year	(657)	169	(488)
At 31 December 2004	20,205	(2,674)	17,531
(Credit) charge to income for the year	(9,585)	8	(9,577)
At 31 December 2005	10,620	(2,666)	7,954

35. DEFERRED TAXATION (continued)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose.

	2005	2004
	HK$'000	HK$'000
Deferred tax liabilities	**7,954**	17,531

At 31 December 2005, the Group has unused tax losses of approximately HK$1,762 million (2004: HK$1,724 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to unpredictability of future profit streams, and such tax losses may be carried forward indefinitely.

36. AMOUNTS DUE FROM/TO ASSOCIATES

The amounts due from/to associates are unsecured, non-interest bearing and repayable on demand. The directors consider that the carrying amounts approximate to their fair values.

37. AMOUNT DUE TO A MAJOR SHAREHOLDER

As at 31 December 2004, the amount due to China Aerospace Science & Technology Corporation ("CASC") was non-interest bearing and repayable on 31 December 2006. On 9 September 2005, the Company entered into a loan agreement with CASC to modify the terms of the loan ("Loan Agreement") with retrospective effect on 1 January 2005. Pursuant to the terms of the Loan Agreement, the amount bears interest at 4.5% per annum.

38. SHARE CAPITAL

	Number of shares	**Nominal value**
	'000	HK$'000
Authorised:		
At 1 January 2004 and 31 December 2004		
Ordinary shares of HK$1 each	10,000,000	10,000,000
Capital reduction confirmed by the Order of the High Court on 1 November 2005 by reducing the nominal value of shares from HK$1 each to HK$0.1 each	–	(9,000,000)
Increase in authorised share capital	90,000,000	9,000,000
At 31 December 2005		
Ordinary shares of HK$0.1 each	100,000,000	10,000,000

38. SHARE CAPITAL (continued)

(a) Share capital

	Number of shares '000	Nominal value HK$'000
Issued and fully paid:		
At 1 January 2004 and 31 December 2004		
Ordinary shares of HK$1 each	**2,142,420**	2,142,420
Capital reduction confirmed by the Order of the High Court on 1 November 2005 by reducing the nominal value of shares from HK$1 each to HK$0.1 each	**–**	(1,928,178)
At 31 December 2005		
Ordinary shares of HK$0.1 each	**2,142,420**	214,242

(b) Share option scheme

Under the terms of the share option scheme of the Company (the "Scheme") which became effective on 8 July 1997 and shall be valid until 8 July 2007, the board of directors of the Company may offer to any full time employees of the Company and/or any of its subsidiaries including executive directors of the Company, options to subscribe for shares in the Company at a price which is not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time. The options granted must be accepted within 28 days from date of grant. Upon acceptance of an offer of options, an amount of HK$1 by way of consideration is payable by the employee. Options may be exercised at any time for a period to be determined by the directors of the Company, which shall not exceed ten years from the adoption of the Scheme. Unless otherwise terminated or altered, the Scheme will remain in force for a period of ten years from the date of adoption.

The purpose of the Scheme is to recognise the contribution of employees of the Group.

Pursuant to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") with which the Company must comply, the exercise price of options under an option scheme must be at least the higher of: (i) the closing price of the shares on the Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of options to be issued to each participant in any twelve-month period must not exceed 1% of the share capital of the Company in issue.

38. SHARE CAPITAL (continued)

(b) Share option scheme (continued)

As the Listing Rules relating to a share option scheme were amended on 1 September 2001, share option can only be granted under the share option scheme provided that the existing Listing Rules on share option schemes are complied with.

No share option under either the Scheme was granted to the directors or employees of the Company or its subsidiaries in both years ended 31 December 2004 and 31 December 2005.

(c) Share premium

Under the terms of the court order in the reduction of the share premium on 11 July 1994 and 1 November 2005 (the "effective date"), the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and 1 November 2005 and any write back of the total provisions which have been made against at the effective date the investments will be transferred to a special capital reserve account. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.

On 1 November, 2005, an order of petition (the "Order") was granted by the High Court of Hong Kong Special Administrative Region (the "High Court"). Pursuant to the Order, the reduction of the share capital and the cancellation of the share premium account of the Company as resolved and effected by a special resolution passed at an extraordinary general meeting of the Company held on 25 August, 2005, be and the same was confirmed in accordance with the provisions of Section 59 of the Companies Ordinance.

The High Court approved the Order. Pursuant to the Order, the capital of the Company was by virtue of special resolutions of the Company with the sanction of the Order reduced from HK$10,000,000,000 divided into 10,000,000,000 ordinary shares of HK$1.00 each (of which 2,142,420,000 shares had been issued and were fully paid up or credited as fully paid) to HK$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK$0.10 each. The Company further by ordinary resolution provided that forthwith upon such reduction of capital taking effect, the authorised share capital of the Company would be increased from HK$1,000,000,000 to HK$10,000,000,000 by creation of additional 90,000,000,000 share of HK$0.10 each. Accordingly, after the approval of the Order, the authorised share capital of the Company was HK$10,000,000 divided into 100,000,000,000 shares of HK$0.10 each, of which 2,142,420,000 shares had been issued and were fully paid up or credited as fully paid and the remaining shares are unissued. The sum of HK$939,048,000 standing to the credit of the share premium account of the Company was reduced and cancelled against the accumulated losses of the Company.

38. SHARE CAPITAL (continued)

(c) Share premium (continued)

The Company provided an undertaking that in the event of the Company makes any future recoveries in respect of the assets, in respect of which provisions for diminution in value were made in the financial statements of the Company for the 7 years ended 31 December 2004 "Non-Permanent Loss Assets" beyond the written down value in the Company's audited financial statements as at 31 December 2004, all such recoveries beyond that written down value will be credited to a special capital reserve in the accounting records of the Company and that so long as there shall remain outstanding any debt of or claim against the Company which, if the date on which the proposed reduction of capital and cancellation of the share premium account becomes effective were the date of the commencement of the winding up of the Company would be admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, be treated as an un-distributable reserve of the Company for the purposes of section 79C of the Companies Ordinance or any statutory re-enactment or modification thereof provided that:

(1) the Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied;

(2) the amount standing to the credit of the special capital reserve shall not exceed the lesser of (a) the amount of provision provided for in respect of the Non-Permanent Loss Assets for the 7 years ended 31 December 2004; or (b) the amount due to the creditors of the Company as at the date when the proposed reduction of capital and cancellation of share premium shall become effective;

(3) the said overall aggregate limit in respect of the special capital reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits;

(4) the said overall aggregate limit in respect of the special capital reserve may be reduced upon the realisation, after the date on which the proposed reduction of capital and cancellation of the share premium account becomes effective, of any of the Non-Permanent Loss Assets by the total provision made in relation to each such assets as at 31 December 2004 less such amount (if any) as is credited to the said special capital reserve as a result of such realisations; and

(5) in the event that the amount standing to the credit of the said special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisos (3) and or (4) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution; and

38. SHARE CAPITAL (continued)

(c) Share premium (continued)

And the Company further undertook that for so long as the undertaking remains effective, to (1) cause or procure its statutory auditors to report by way of a note or otherwise a summary of the undertaking in its audited consolidated financial statements or in the management accounts of the Company published in any other form; and (2) publish or cause to be published in any prospectus issued by or on behalf of the Company a summary of the undertaking.

39. DISPOSAL/DEEMED DISPOSAL OF SUBSIDIARIES

The Group disposed of its interests in certain subsidiaries which were engaged in property development and investment, and distribution of electronic products.

The effect of the disposal/deemed disposal is summarised as follows:

	2005 **HK$'000**	2004 HK$'000
Net assets disposed of:		
Property, plant and equipment	**266**	1,536
Interests in associates	**–**	38,335
Amounts due to associates	**–**	(2,830)
Inventories	**–**	1,825
Trade and other receivables	**416**	53,841
Bank balances and cash	**38**	1,677
Trade and other payables	**(1,257)**	(69,936)
Taxation recoverable	**–**	1
	(537)	24,449
Realisation of reserves	**(339)**	(1,724)
Gain on disposal/deemed disposal	**876**	65,806
	–	88,531
Represented/satisfied by:		
Interests in jointly controlled entities	**–**	88,531

39. DISPOSAL/DEEMED DISPOSAL OF SUBSIDIARIES (continued)

Analysis of the net outflow of cash and cash equivalents in respect of the disposal/deemed disposal of subsidiaries:

	2005	2004
	HK$'000	HK$'000
Cash consideration	**–**	–
Bank balances and cash disposed of	**(38)**	(1,677)
	(38)	(1,677)

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows or operating results.

40. MAJOR NON-CASH TRANSACTIONS

The Group has the following major non-cash transactions:

During the year, the Group entered into finance lease arrangements in respect of acquisition of property, plant and equipment with a total value at the inception of the leases of HK$6,883,000 (2004: HK$13,159,000).

41. CONTINGENT LIABILITIES

	2005	2004
	HK$'000	HK$'000
Guarantees given for banking and finance facilities granted to third parties	**–**	2,055

In addition, a subsidiary of the Company was named as a defendant in a litigation in respect of an alleged breach of the loan agreement in failing to advance the full amount of HK$330,000,000 to an independent third party in 1997. Concurrently, the subsidiary resisted the claim and counterclaimed against the independent third party and sued against its guarantor upon default on, including but not limited to, interest and payment of the loan amount advanced under the loan agreement and the mortgage. On 30 July 2004, the Court judged that the independent third party was entitled to damages consequent upon the subsidiary's breach of loan agreement. However, the subsidiary was also entitled to repayment of principal outstanding under the loan agreement and interest thereon in terms of the loan agreement and to judgement against both the owners of the pledged assets under the mortgage and the guarantor under the guarantee.

The compensation to be made to the independent third party and the loan principal and interest to be received by the subsidiary have not yet been concluded. In the opinion of the directors, the amount of compensation cannot be determined at this stage and no further impairment loss was made accordingly.

42. CAPITAL COMMITMENTS

	2005 HK$'000	2004 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– capital contribution to investee companies	**2,829**	2,829
– purchase of property, plant and equipment	**10,498**	9,071
– properties under development	**329**	165
	13,656	12,065
Capital expenditure authorised but not contracted for in respect of:		
– capital contribution to an investee company	**–**	873

43. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2005 HK$'000	2004 HK$'000
Within one year	**993**	70
In the second to fifth year inclusive	**5,590**	3,077
Over five years	**29,861**	27,900
	36,444	31,047

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties and quarters. Leases are generally negotiated and rentals are fixed for an average term of thirty years.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2005 HK$'000	2004 HK$'000
Within one year	**997**	10,580
In the second to fifth year inclusive	**662**	5,260
	1,659	15,840

43. OPERATING LEASE COMMITMENTS (continued)

The Group as lessor (continued)

The properties held have committed tenants for the next one to two years. The properties are expected to generate rental yields of 10% on an ongoing basis.

44. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme.

The employees in the Company's PRC subsidiaries are members of the state-managed pension scheme operated by the PRC government. The Company's subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated income statement of HK$1,637,000 (2004: HK$1,370,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

45. RELATED PARTY TRANSACTIONS

(a) Save as disclosed in notes 34 and 37 in the consolidated financial statements, the Group had the following transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2005 HK$'000	2004 HK$'000
CASC	Major shareholder	Interest expenses paid	**7,949**	–

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

(b) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under CASC which is controlled by the PRC government. Apart from the transactions with CASC disclosed in section (a) above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

45. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions/balances with other state-controlled entities in the PRC (continued)

In view of the nature of the Group's nature of business, the directors are of the opinion that, except as disclosed above, it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other state-controlled-entities.

The Group has certain deposits placements, borrowings and other general banking facilities, with certain banks which are state-controlled entities in its ordinary course of business. In view of the nature of those transactions, the Directors are of the opinion that separate disclosure on these transactions and balances would not be meaningful.

46. POST BALANCE SHEET EVENT

On 20 March 2006, CASIL Clearing Company Limited ("CASIL Clearing"), a wholly-owned subsidiary of the Company, entered into an agreement with CASC pursuant to which CASIL Clearing has agreed to purchase and CASC has agreed to sell approximately 79.25% of the issued share capital of Vanbao Development (Canada) Ltd., the related shareholders loan and 100% of the registered capital of Dongguan Huadun Enterprises Limited at an aggregate consideration of HK$92,884,290, payable by assigning certain of the loans receivable of CASIL Clearing. As the aggregate book value of the loans receivable, which amounted to approximately HK$188 million to be assigned by CASIL Clearing to CASC or its nominee exceeds the aggregate consideration, CASC has agreed that the difference be set-off against the shareholder's loan due from the Group to CASC as at the date of completion (up to a maximum of HK$80,000,000) and the balance to be paid by CASC to CASIL Clearing in cash.

As CASC is the controlling shareholder of the Company, the entering into of the Sale and Purchase Agreement between CASIL Clearing and CASC constitutes a connected transaction for the Company under the Listing Rules and is subject to the approval of the Independent Shareholders by way of poll at the Extraordinary General Meeting to be convened on 26 April 2006. The transaction is expected to be completed on or before 30 September 2006.

The transaction will be accounted for in accordance with HKFRS 3. Since the fair values of the identified assets, liabilities and contingent liabilities required have not yet been finalised, the directors of the Company are of the opinion that, it is not practicable to disclose the relevant information required under HKFRS 3.

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Hong Kong:					
CASIL Clearing Limited	HK$10,000,000	100	–	100	Provision of treasury services
CASIL Development Limited	HK$1,000,000	–	100	100	Property development and investment
CASIL Electronic Products Limited	HK$15,000,000	100	–	100	Distribution of electronic products
CASIL Global Development Limited	HK$100	100	–	100	Inactive
CASIL (Nominees) Limited	HK$2	100	–	100	Provision of secretarial services
CASIL Optoelectronic Product Development Limited	HK$3,000,000	–	100	100	Distribution of optoelectronic products
CASIL Properties Limited	HK$10,000	100	–	100	Inactive
CASIL Realty Limited	HK$200	100	–	100	Inactive
CASIL Research and Development Company Limited	HK$8,000,000	100	–	100	Inactive
CASIL Satellite Holdings Limited	HK$88,106,563 (2 ordinary shares of HK$1 each and 11,295,713 ordinary shares of US$1 each)	–	100	100	Investment holding
CASIL Semiconductor Limited	HK$15,000,000	100	–	100	Distribution of liquid crystal displays

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	held by subsidiaries %	attributable to the Group %	Principal activities
Chee Yuen Industrial Company Limited	HK$20,000,000	100	–	100	Distribution of plastic products and moulds
Far East United Electronics Limited	HK$10,000,000	100	–	100	Inactive
Hong Yuen Electronics Limited	HK$5,000,000	100	–	100	Manufacturing and selling of printed circuit boards
Jeckson Electric Company Limited	HK$5,000,000	100	–	100	Manufacturing and distribution of electronic components
Merrycity Company Limited	HK$380,000	–	100	100	Inactive
Sure Full Investments Limited	HK$2	100	–	100	Inactive
Well Horn Company Limited	HK$2	–	100	100	Inactive
Worldwide Polyfoam & Engineering Limited	HK$3,000,000	100	–	100	General trading
Incorporated in the British Virgin Islands and operating in Hong Kong:					
Sinolike Investments Limited	US$1	100	–	100	Investment holding
Registered and operating in the PRC:					
Aerospace Technology (China) Company Limited #	US$5,000,000	100	–	100	Manufacturing of telecommunication
Chee Yuen Plastic Products (Huizhou) Company Limited #	RMB26,761,000	–	100	100	Manufacturing of plastic products and moulds
China Aerospace(Huizhou) Industrial Garden Limited ##	US$12,000,000	90	–	90	Property development

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Percentage of equity attributable to the Group %	Principal activities
Conhui (Huizhou) Electronics Company Limited #	RMB131,831,747	–	100	100	Manufacturing and distribution of electronic products
Conhui (Huizhou) Semiconductor Company Limited #	RMB31,229,651	–	100	100	Manufacturing of liquid crystal displays
Conhui (Huizhou) Worldwide Polyfoam Limited #	RMB3,728,813	–	100	100	Manufacturing of polyfoam products
Huizhou Jeckson Electric Company Limited ##	US$1,000,000	–	90	90	Subcontractor for the manufacture of electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited ##	US$400,000	–	90	90	Manufacturing of electronics and plastic products
Shenzhen Chee Yuen Plastics Company Limited ##	RMB22,000,000	–	80	80	Manufacturing of plastic products
惠州市海燕賓館有限公司 ##	RMB7,700,000	–	51	46	Hotel operation
航科新世紀科技發展(深圳)有限公司 #	US$2,000,000	100	–	100	Research and development of system technology in satellite application and digital broadcasting, transfer and service provision of technology

Wholly foreign-owned enterprises registered in the PRC

Sino-foreign joint equity enterprises registered in the PRC

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

48. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Hong Kong :			
Postel Development Company Limited	HK$10,000	30	Trading
Sonconpak Limited	HK$12,000,000	30	Manufacturing of carton box

The above table lists the associate of the Group which, in the opinion of the directors, principally affected the results of 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.

49. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Name of jointly controlled entities	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Hong Kong:			
China Aerospace New World Technology Limited	HK$30,000,000	50	Investment holding