Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

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

The Company is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 40.

2. 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"), HKASs and Interpretations (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 the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of 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 and/or prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3, "Business Combinations". The principal effects of the application of HKFRS 3 to the Group are related to goodwill and negative goodwill and are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. In accordance with the relevant transitional provisions in HKFRS 3, amortisation of goodwill discontinued from 1 January 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. This change has had no effect on the results of both the current and prior period as the goodwill was fully amortised on 31 December 2004.

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

Business Combinations (continued)

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 after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. This change has had no effect on the results of both the current and prior year in accordance with the relevant transitional provisions in HKFRS 3 as the negative goodwill was fully released on 31 December 2004.

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the consolidated financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit retrospective application. 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 the 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 investments in securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in 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 the 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 investments in 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". The classification depends on the purpose for which the assets are acquired. "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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

2. 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 classified and measured its investments in securities in accordance with the requirements of HKAS 39. Adjustments to the Group's previous carrying amount of assets and retained profits were made on 1 January 2005 (see note 3 for the financial impact).

Derivatives

By 31 December 2004, the Group's derivative financial instruments, representing foreign currency forward contracts, were used to manage the Group's exposure to exchange rate fluctuation. These derivatives were previously recorded off the balance sheet.

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held for trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39, resulting in recognition of financial liabilities in respect of the foreign currency forward contracts, that are deemed as held for trading, as at 1 January 2005 (see note 3 for the financial impact).

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005. As a result, the Group's discounted bills receivables with full recourse which were derecognised prior to 1 January 2005 have not been restated. As at 31 December 2005, the Group's discounted bills receivables with full recourse have not been derecognised. Instead, the related borrowings of HK$858,000 have been recognised on the consolidated balance sheet. This change has had no material effect on the results for the current year.

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

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. This change has had no effect on the results for both the current and prior year.

Owner-occupied Leasehold Interests 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 period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The Group has considered that the allocation between the land and buildings elements of the Group's leasehold land and buildings cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. In previous years, the leasehold interests in land was depreciated over the term of lease and buildings were depreciated over the term of lease or forty years, whichever is shorter. During the year, the management reassessed the useful lives of its leasehold interests in land and buildings with effect from 1 January 2005, the buildings were changed to be depreciated over the term of lease to consistent with that of the leasehold interests in land. The change in depreciation rate does not have a material impact on the depreciation charge for the year.

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". 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 year in which they arise. In previous years, investment properties under the predecessor accounting 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 subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

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

Investment Properties (continued)

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 retained profits (see note 3 for the financial impact).

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 HKAS Interpretation 21 "Income Taxes - Recovery of Revalued Non-Depreciable Assets" 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. This change has had no material effect on the results of both the current and prior year.

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

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

[1] Effective for 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.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	2005 HK$'000	2004 HK$'000
Gain arising from fair value changes of forward contracts financial liabilities	**2,150**	–
Increase in fair value of investment properties	**880**	–
Release the amount previously adjusted to the retained profits on initial application of HKAS 39 upon disposal of an available-for-sale investment	**59**	–
Increase in profit for the year	**3,089**	–
Attributable to:		
Equity holders of the Company	**3,070**	–
Minority interests	**19**	–
	3,089	–

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

	2005 HK$'000	2004 HK$'000
Increase in fair value of investment properties	**880**	–
Increase in other income	**2,209**	–
Increase in profit for the year	**3,089**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

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

	As at 31 December 2004 (originally stated) HK$'000	Effect on changes on adoption of HKAS 1 HK$'000	As at 31 December 2004 (restated) HK$'000	Adjustments on 1 January 2005 on adoption of HKAS 39 HK$'000	Adjustments on 1 January 2005 on adoption of HKAS 40 HK$'000	As at 1 January 2005 (restated) HK$'000
Balance sheet items						
Available-for-sale investments	–	–	–	4,786	–	4,786
Investment held for trading	–	–	–	23	–	23
Investment in securities	4,991	–	4,991	(4,991)	–	–
Forward contracts financial liabilities	–	–	–	(2,150)	–	(2,150)
Total effects on assets and liabilities	4,991	–	4,991	(2,332)	–	2,659
Retained profits	48,142	–	48,142	(2,313)	136	45,965
Investment property revaluation reserve	136	–	136	–	(136)	–
Minority interests	–	793	793	(19)	–	774
Total effects on equity	48,278	793	49,071	(2,332)	–	46,739
Minority interests	793	(793)	–	–	–	–

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

	As originally stated HK$'000	Adjustments on adoption of HKAS 1 HK$'000	As restated HK$'000
Effect on equity:			
Minority interests	–	747	747

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, as explained in the 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 and by the Hong Kong Companies Ordinance.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the 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.

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.

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

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

Service income is recognised when services are rendered.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are held to earn rentals and for capital appreciation.

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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. 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 asset) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives using the straight-line method.

Leasehold properties	Over the term of the lease , or 40 years
Leasehold improvement	20% - 25%
Office equipment	20% - 25%
Furniture and fixtures	20% - 25%
Computer equipment	30% - 50%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

When the Group is the lessor, rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating leases 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.

When the Group is the lessee, rental expense under operating leases is 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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated 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.

Financial assets

Financial assets are classified into one of the following categories, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. The Group's financial assets comprise of investment held for trading, available-for-sale financial assets and loans and receivables. The accounting policies adopted in respect of the Group's financial assets are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade debtors, 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 profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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. Equity instruments issued by the Company are recorded at proceeds received, net of direct issue costs. The Group's financial liabilities mainly include trade creditors, bills payables, trust receipt loans and secured bank borrowings which are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivative financial instruments

The Group's derivative financial instrument do not quality for hedge accounting. Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

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 consolidated 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 paid is recognised in profit or loss.

Research and development expenditure

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.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Technology know-how

Technology know-how is stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation is provided to write off the cost on a straight-line basis over its useful life.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these 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. Impairment loss is recognised as an expense immediately.

When 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 income immediately.

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.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised on differences between the carrying amount 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 of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Equity share-based payment transactions

For share options granted to employees of the Group, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Borrowing costs

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

Retirement benefit costs

The contributions payable to the retirement benefits schemes are charged the consolidated income statement represent as expenses as they fall due.

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5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowance of doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other debtors where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other debtors and doubtful debts expenses in the periods in which such estimate has been changed.

Allowance of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debtors, pledged bank deposits, bank balances and cash, creditors, bills payables, trust receipt loans and secured bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

(i) Foreign currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

(ii) Cash flow interest rate risk

The Group is exposed to cash flow interest risk through the changes in interest rates relates mainly to the Group's bank borrowings, pledged bank deposits and bank balances. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates.

(iii) Price risk

The Group's available-for-sale investments and investment held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to security price risk. The management will monitor the price movements and take appropriate actions when it is required.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk for pledged bank deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

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

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank loans and overdrafts. In addition, banking facilities have been put in place for contingency purposes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

7. REVENUE

Revenue is measured at fair value of the consideration received or receivable and represents the net amount received and receivable for goods sold and services provided, during the year.

8. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into two operating divisions - distribution of semiconductors and development and provision of electronic turnkey device solutions. These divisions are the basis on which the Group reports its primary segment information. Inter-segment sales were carried out at market price.

Segment information about these businesses is presented below.

Income statement

for the year ended 31 December 2005

	Distribution of semiconductors HK$'000	Development and provision of electronic turnkey device solutions HK$'000	Elimination HK$'000	Consolidated HK$'000
Revenue				
External sales	561,389	114,002	–	675,391
Inter-segment sales	769	32	(801)	–
	562,158	114,034	(801)	675,391
Segment results	13,536	3,608	–	17,144
Unallocated corporate income				668
Finance costs				(6,480)
Profit before taxation				11,332
Income tax expenses				(1,732)
Profit for the year				9,600

8. SEGMENT INFORMATION (continued)

Balance sheet
as at 31 December 2005

	Distribution of semiconductors HK$'000	Development and provision of electronic turnkey device solutions HK$'000	Consolidated HK$'000
Assets			
Segment assets	168,619	25,195	193,814
Unallocated corporate assets			60,564
Consolidated total assets			254,378
Liabilities			
Segment liabilities	32,280	15,501	47,781
Unallocated corporate liabilities			114,161
Consolidated total liabilities			161,942
Other information			
Additions to property, plant and equipment	489	4,127	4,616
Depreciation of property, plant and equipment	448	1,207	1,655
Amortisation of technology know-how	–	2,730	2,730
Allowance for doubtful debts	671	236	907
Allowance for slow moving inventories	4,075	8	4,083

Income statement
for the year ended 31 December 2004

	Distribution of semiconductors HK$'000	Development and provision of electronic turnkey device solutions HK$'000	Elimination HK$'000	Consolidated HK$'000
Revenue				
External sales	444,564	75,854	–	520,418
Inter-segment sales	566	381	(947)	–
	445,130	76,235	(947)	520,418
Segment results	16,359	(5,204)	–	11,155
Unallocated corporate income				85
Finance costs				(5,137)
Profit before taxation				6,103
Income tax expenses				(276)
Profit for the year				5,827

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

8. SEGMENT INFORMATION (continued)

Balance sheet
as at 31 December 2004

	Distribution of semiconductors HK$'000	Development and provision of electronic turnkey device solutions HK$'000	Consolidated HK$'000
Assets			
Segment assets	136,409	29,384	165,793
Unallocated corporate assets			65,740
Consolidated total assets			231,533
Liabilities			
Segment liabilities	57,990	12,126	70,116
Unallocated corporate liabilities			76,415
Consolidated total liabilities			146,531
Other information			
Additions to property, plant and equipment	733	319	1,052
Depreciation of property, plant and equipment	448	688	1,136
Loss on disposal of property, plant and equipment	6	159	165
Amortisation of technology know-how	–	2,730	2,730
Amortisation of goodwill	323	–	323
Allowance (reversal) for doubtful debts	688	(289)	399
Allowance for slow moving inventories	467	–	467

Geographical segments

The Group's operations are principally located in Hong Kong and the People's Republic of China ("PRC").

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods/services:

	2005 HK$'000	2004 HK$'000
Hong Kong	**424,791**	323,242
PRC	**242,532**	192,877
Others	**8,068**	4,299
	675,391	520,418

8. SEGMENT INFORMATION (continued)

The following is an analysis of the carrying amount of segment assets analysed by the geographical area in which the assets are located at the balance sheet date and additions to property, plant and equipment during the year:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Hong Kong	**201,483**	180,445	**489**	733
PRC	**50,884**	50,720	**4,127**	319
Others	**2,011**	368	**–**	–
	254,378	231,533	**4,616**	1,052

9. OTHER INCOME

	2005 HK$'000	2004 HK$'000
Commission income	**128**	5
Compensation income	**–**	1,117
Engineering income	**911**	310
Exchange gain, net	**127**	–
Gain on derecognition of forward contracts	**2,550**	–
Gain on disposal of an available-for-sale investment	**64**	–
Gain on disposal of property, plant and equipment	**2,194**	–
Interest income	**604**	85
Management service income	**96**	–
Release of negative goodwill	**–**	41
Rental income	**285**	272
Sample income	**148**	200
Sundry income	**1,836**	886
Technical service income	**2**	292
Unrealised gain on investment in securities	**–**	12
	8,945	3,220

10. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank borrowings wholly repayable within five years	**6,032**	4,258
Interest on other borrowings	**440**	869
Finance lease charges	**8**	10
	6,480	5,137

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11. PROFIT BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Profit before taxation is arrived at after charging:		
Allowance for doubtful debts included in general and administrative expenses	**907**	399
Allowance for slow moving inventories included in cost of sales	**4,083**	467
Amortisation of goodwill included in general and administrative expenses	**–**	323
Auditors' remuneration:		
Current year	**1,180**	780
Underprovision for previous years	**381**	10
Decrease in fair value of investment held for trading	**2**	–
Depreciation of property, plant and equipment:		
Own assets	**1,620**	1,086
Asset held under a finance lease	**35**	50
Exchange loss, net	**–**	8
Loss on disposal of property, plant and equipment	**–**	165
Operating leases in respect of:		
Office premises	**1,386**	1,128
Office equipment	**17**	1
Research and development cost	**1,573**	1,488
Staff costs inclusive of directors' remuneration	**24,277**	22,683

12. INCOME TAX EXPENSES

	2005 HK$'000	2004 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
current year	**1,113**	278
underprovision in prior year	**90**	58
	1,203	336
Deferred taxation		
current year (note 30)	**529**	(60)
	1,732	276

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year.

12. INCOME TAX EXPENSES (continued)

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005 **HK$'000**	2004 HK$'000
Profit before taxation	**11,332**	6,103
Tax at the domestic income tax rate of 17.5%	**1,983**	1,068
Tax effect of expenses not deductible for tax purpose	**532**	355
Tax effect of income not taxable for tax purpose	**(941)**	(48)
Tax effect of tax losses not recognised	**455**	387
Utilisation of tax losses previously not recognised	**(365)**	(1,414)
Effect of tax exemptions granted to a PRC subsidiary	**(1)**	(58)
Underprovision in prior year	**90**	58
Others	**(21)**	(72)
Taxation charge for the year	**1,732**	276

Details of deferred taxation are set out in note 30.

13. DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES

Directors' emoluments

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

	Wong Shu Wing HK$'000	**Kwan Kim Fai Stanley** HK$'000	**Choi Tai Kai** HK$'000	**Lau Kit Hung** HK$'000	**Lau Chung Kwan** *Note (a)* HK$'000	**Yeung Ming Tai** *Note (a)* HK$'000	**Chang Kin Man** *Note (a)* HK$'000	**Total** HK$'000
2005								
Fees	–	–	–	–	50	50	50	150
Other emoluments								
Salaries and other benefits	858	742	700	468	–	–	–	2,768
Retirements benefits scheme contributions	12	12	12	12	–	–	–	48
Total emoluments	870	754	712	480	50	50	50	2,966
2004								
Fees	–	–	–	–	50	50	50	150
Other emoluments								
Salaries and other benefits	910	792	698	507	–	–	–	2,907
Retirements benefits scheme contributions	12	12	12	12	–	–	–	48
Total emoluments	922	804	710	519	50	50	50	3,105

Note (a): Independent non-executive director

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13. DIRECTORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES (continued)

The five highest paid individuals of the Group included three (2004: three) directors, details of their remunerations are set out on page 57. The remunerations of the remaining two (2004: two) individuals were as follows:

	2005 **HK$'000**	2004 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,094**	1,231
Retirement benefits scheme contributions	**24**	24
	1,118	1,255

The remunerations of the remaining two individuals were within the band of nil to HK$1,000,000.

During both years, no remunerations were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived any remunerations during both years.

14. DIVIDEND

The directors do not recommend the payment of a dividend and proposed the profit for the year been retained.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the profit for the year attributable to the equity holders of the Company of HK$9,608,000 (2004: HK$5,781,000) and on number of shares in issue of 473,000,000 (2004: weighted average number of shares 460,434,000).

The computation of diluted earnings per share for both 2005 and 2004 does not assume the exercise of the outstanding share options as the exercise price of the Company's outstanding share options was higher than the average market price for shares for the years ended 31 December 2005 and 31 December 2004.

The following table summarises the impact on basic and diluted earnings per share as a result of:

	2005 **HK cents**	2004 HK cents
Reported figures before adjustments	**1.4**	1.3
Adjustments arising from changes in accounting policies (note 3)	**0.6**	–
As restated	**2.0**	1.3

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2004	1,575
Revaluation increase	375
At 31 December 2004	1,950
Increase in fair value	880
At 31 December 2005	2,830

All of the Group's leasehold interests in land 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.

Investment properties, which are situated in Hong Kong and held under medium term leases, are held for rental purpose and have been pledged to secure banking facilities granted to the Group.

The fair values of the Group's investment properties at 31 December 2005 have been arrived at on the basis of valuations carried out on that date by Grant Sherman Appraisal Limited, independent qualified professional valuers not connected with the Group. Grant Sherman Appraisal Limited is a member of the Royal Institution of Chartered Surveyors, and has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuations which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties.

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For the year ended 31 December 2005

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK$'000	Leasehold improve-ments HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST							
At 1 January 2004	6,333	3,184	4,774	1,832	211	147	16,481
Exchange realignment	–	9	6	–	–	–	15
Additions	–	61	70	–	–	921	1,052
Disposals	–	(467)	(106)	(8)	–	–	(581)
At 31 December 2004	6,333	2,787	4,744	1,824	211	1,068	16,967
Exchange realignment	–	9	13	–	–	5	27
Additions	–	638	3,164	–	814	–	4,616
Disposals	(3,277)	(827)	(621)	(83)	–	–	(4,808)
At 31 December 2005	3,056	2,607	7,300	1,741	1,025	1,073	16,802
DEPRECIATION AND AMORTISATION							
At 1 January 2004	236	1,905	3,737	1,062	184	147	7,271
Exchange realignment	–	1	1	–	–	–	2
Provided for the year	149	351	284	277	11	64	1,136
Eliminated on disposals	–	(132)	(48)	(8)	–	–	(188)
At 31 December 2004	385	2,125	3,974	1,331	195	211	8,221
Exchange realignment	–	4	4	–	–	–	8
Provided for the year	149	339	496	272	194	205	1,655
Eliminated on disposals	(277)	(697)	(546)	(82)	–	–	(1,602)
At 31 December 2005	257	1,771	3,928	1,521	389	416	8,282
CARRYING VALUES							
At 31 December 2005	2,799	836	3,372	220	636	657	8,520
At 31 December 2004	5,948	662	770	493	16	857	8,746

Leasehold properties, which are situated in Hong Kong and held under medium term leases, have been pledged to secure banking facilities granted to the Group.

Included in carrying values of motor vehicles as at 31 December 2005 was an amount of HK$105,000 (2004: HK$140,000) in respect of an asset held under a finance lease.

18. GOODWILL

	HK$'000
COST	
At 1 January 2004, 31 December 2004 and 31 December 2005	2,103
AMORTISATION	
At 1 January 2004	1,780
Provided for the year	323
At 31 December 2004 and 31 December 2005	2,103
CARRYING VALUE	
At 31 December 2004 and 31 December 2005	–

The amortisation period adopted for goodwill was two years.

19. NEGATIVE GOODWILL

	HK$'000
GROSS AMOUNT	
At 1 January 2004, 31 December 2004 and 31 December 2005	198
RELEASED TO INCOME	
At 1 January 2004	157
Released for the year	41
At 31 December 2004 and 31 December 2005	198
CARRYING AMOUNT	
At 31 December 2004 and 31 December 2005	–

The negative goodwill is released to income on a straight-line basis over two years.

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20. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT HELD FOR TRADING/ INVESTMENT IN SECURITIES

	2005 HK$'000	2004 HK$'000
Available-for-sale investments		
Unlisted unit trust fund, at fair value	**3,896**	–
Investment held for trading		
Listed equity securities in Hong Kong, at fair value	**21**	–
	3,917	–
Other investment:		
Listed equity securities in Hong Kong, at market value	**–**	23
Investment securities:		
Unlisted unit trust fund, at cost	**–**	4,968
	–	4,991
Non-current	**3,896**	4,968
Current	**21**	23
	3,917	4,991

As mentioned in note 2, from 1 January 2005 onwards, other investment and investment securities have been reclassified to investment held for trading and available-for-sale investments, respectively, in accordance with the requirements of HKAS 39.

The fair values of the above available-for-sale investments have been determined by reference to the quoted market prices of the underlying assets of the available-for-sale investments.

The fair values of the above investment held for trading are determined based on quoted market bid prices available on the relevant exchange.

21. TECHNOLOGY KNOW-HOW

	HK$'000
COST	
At 1 January 2004, 31 December 2004 and 31 December 2005	5,460
AMORTISATION	
At 1 January 2004	–
Charge for the year	2,730
At 31 December 2004	2,730
Charge for the year	2,730
At 31 December 2005	5,460
CARRYING VALUE	
At 31 December 2005	–
At 31 December 2004	2,730

In May 2002, a deposit of HK$5,460,000 (USD700,000) was paid to an independent third party for the development of the know-how of global positioning system products ("GPS know-how"). In late 2003, the development was completed and the Group obtained the right of the GPS know-how in the consideration of the deposit paid.

The Group has used this know-how to develop electronic turnkey device solutions for GPS products. The technology know-how is amortised on a straight-line basis over two years, being its estimated useful life.

22. INVENTORIES

	2005 **HK$'000**	2004 HK$'000
Raw materials	**263**	635
Work in progress	**159**	289
Finished goods	**22,431**	30,509
	22,853	31,433

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23. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period of 30 to 90 days to its trade customers. For certain customers with long-established relationship and good past settlement histories, a longer credit period may be granted.

An aged analysis of trade debtors is as follows:

	2005 **HK$'000**	2004 HK$'000
Within 30 days	**57,339**	38,348
Between 31 to 60 days	**42,078**	23,793
Over 60 days	**36,882**	38,555
	136,299	100,696
Other debtors, deposits and prepayments *(notes)*	**24,589**	18,912
	160,888	119,608

Included in trade debtors are amounts of HK$1,163,000 (2004: HK$3,231,000) which have been pledged to certain banks to secure the receivable discounting advance facilities.

Included in other debtors, deposits and prepayments is discounted bills receivables with full recourse of HK$858,000 (2004: Nil) which is aged within 30 days.

The fair values of the Group's trade debtors at 31 December 2005 approximate their carrying amounts.

23. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Notes:

(a) In May 2002, the Group entered into an agreement with Sun Hong Technologies Limited ("Sun Hong") and made a payment of HK$6,240,000 (equivalent to USD 800,000) for development of Information Appliances ("IA"). Among various IA developed by Sun Hong, the directors considered that IA Box and IP sharer were substantially developed during 2003. As Sun Hong disagreed to transfer the ownership of these technical know-how to the Group, the Group and Sun Hong reached a preliminary agreement for an exclusive use of these technologies for a period of two years for a lump sum fee of HK$780,000 (equivalent to USD 100,000). In addition, the Group is required to pay a lump sum royalty charges quarterly or to pay royalties calculated at a percentage of sales revenue of the products that applies these technologies quarterly, whichever is higher, for a period of two years. Both the lump sum fee and royalty charges would be settled against the amount previously paid by the Group. Under such arrangements, the Group charged HK$3,000,000 to the consolidated income statement for the year ended 31 December 2003 as research and development costs. Accordingly, a balance of HK$3,240,000 was included in prepayments as at 31 December 2003 for the settlement of royalty charges over the period of usage.

During the year ended 31 December 2004, royalties charges of HK$253,000 were charged to the income statement. As at 31 December 2004, a balance of HK$2,987,000 was included in the other debtors, deposits and prepayments.

In 2005, the Group has entered into formal agreements with Sun Hong and Sun Hong agreed to repay an amount of HK$2,730,000 to the Group by quarterly installments over one year and the remaining balance of HK$257,000 has been charged to the income statement for set off royalty charges for the exclusive right to use the technologies based on relevant percentages of sales revenue of the respective end products that have embedded and applied the techniques.

(b) Included in other debtors, deposits and prepayment at 31 December 2004 was an amount of HK$600,000 due from 北京科特威電子技術有限公司 ("北京科特威"), an independent developer. Pursuant to the development agreement entered between Sun Horse Technologies (H.K.) Limited ("Sun Horse"), a wholly owned subsidiary of the Company, and 北京科特威 on 30 June 2003, 北京科特威 was engaged to develop the remote electronic curtain control system and solution for Sun Horse. However, the development was not yet commenced until 31 December 2004, due to the limitation of human resources of 北京科特威. With the postponement of such development, Sun Horse and 北京科特威 entered into another agreement in April 2005 to terminate the development and 北京科特威 agreed to refund the deposit of HK$600,000 to Sun Horse within three months from date of the agreement. Accordingly, HK$600,000 was classified as other debtors under current assets as at 31 December 2004. 北京科特威 fully repaid such deposit in 2005.

(c) Included in other debtors, deposits and prepayments at 31 December 2004 was another development deposit of HK$600,000 paid to 北京科特威. Pursuant to an agreement entered into between Hoover Technologies Limited ("Hoover"), a subsidiary of the Company, and 北京科特威 on 1 December 2003, 北京科特威 was responsible for the development of an upgraded version of GPS for a service period up to 31 December 2004 for a service fee of HK$1,200,000. The agreement was then supplemented in early 2005 and the development period was extended to 30 June 2005 with the service fee revised to HK$600,000. Notwithstanding the extension of the services period, the management consider that most of the development services have been rendered. Accordingly, research and development costs of HK$600,000 substantially incurred was charged to the consolidated income statement in prior year. The remaining HK$600,000 was regarded as deposit paid to 北京科特威 to acquire software for GPS back-end development project as at 31 December 2005.

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24. OTHER FINANCIAL ASSETS

Pledged bank deposits

The pledged deposits have been placed in designated banks as part of the securities provided for general banking facilities granted to the Group by banks. The bank deposits carry interest at rates ranging from 0.4% to 3.9% (2004: 0.1% to 0.4%) per annum. The fair values of bank deposits approximate their carrying amounts.

Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carry interest at rates ranging from 0.01% to 2.22% (2004: 0.003% to 0.13%). The fair values of these assets approximate their carrying amounts.

25. CREDITORS AND ACCRUED CHARGES

An aged analysis of the trade creditors is as follows:

	2005 **HK$'000**	2004 HK$'000
Within 30 days	**12,297**	34,785
Between 31 to 60 days	**8,841**	7,723
Over 60 days	**6,875**	2,369
	28,013	44,877
Other creditors and accrued charges	**14,240**	25,239
	42,253	70,116

Included in other creditors and accrued charges are other borrowings of nil (2004: HK$13,005,000) which carried interest at prime rate with effective interest rate of 5.8% (2004: 5.0%).

The fair values of the Group's creditors at 31 December 2005 approximate to the corresponding carrying amounts.

26. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2005	**2004**	**2005**	**2004**
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	**54**	54	**47**	45
More than one year, but not exceeding two years	**36**	54	**31**	45
More than two years, but not exceeding five years	**–**	36	**–**	36
	90	144	**78**	126
Less: Future finance charges	**(12)**	(18)	**–**	–
Present value of lease obligations	**78**	126	**78**	126
Less: Amount due within one year shown under current liabilities			**(47)**	(45)
Amount due after one year			**31**	81

The lease term of the motor vehicle under finance lease is 4 years. For the year ended 31 December 2005, the effective borrowing rate was 7.03% (2004: 7.03%). The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group entered into finance lease arrangement in respect of the motor vehicle with a capital value at the inception of the lease of HK$174,000 in 2004.

The fair value of the Group's finance lease obligations, 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 the carrying amount.

27. TRUST RECEIPT LOANS

The trust receipt loans carry interests at the standard bills rate quoted by banks or at a margin over prime rate with average effective interest rate of 6.9% (2004: 5.5%). The trust receipt loans are secured by the Group's leasehold properties, investment properties, bank deposits and available-for-sale investments. The fair values of the Group's trust receipt loans approximate their carrying amounts. The Group's trust receipt loans are arranged at floating interest rates and subject to cash flow interest rate risk.

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28. SECURED BANK BORROWINGS

	2005 HK$'000	2004 HK$'000
Bank overdrafts (note a)	**1,802**	1,463
Bank loans (note b)	**7,950**	9,380
Discounted bills receivables with full recourse (note b)	**858**	–
Discounting advances drawn on trade debtors (note c)	**219**	1,948
	10,829	12,791

The fair values of the Group's secured bank borrowings approximate their carrying amounts. The Group's secured bank borrowings are arranged at floating interest rates and subject to cash flow interest rate risk.

Notes:

(a) Bank overdrafts carry interests at margin over prime rate with average effective interest rate of 7.4% (2004: 6%) and are secured by the Group's leasehold properties, investment properties, bank deposits and available-for-sale investments.

(b) Bank loans and discounted bills receivables with full recourse carry interests at the standard bills rate quoted by banks or at a margin over prime rate with average effective interest rate of 7.5% (2004: 5.9%) and are secured by the Group's leasehold properties, investment properties, bank deposits and available-for-sale investments.

(c) Discounting advances drawn on trade debtors carry interests at the standard bills rates quoted by banks or at a margin over prime rate with average effective interest rate of 6.9% (2004: 5.5%) and are secured by certain trade debtors of the Group.

29. OTHER FINANCIAL LIABILITY

Bills payables

The directors considered that the fair values of bills payables approximate their carrying amounts.

Included in the bills payables are amount of HK$3,656,000 aged within 30 days and the remaining balance of HK$1,872,000 aged between 90 to 120 days.

30. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the two years ended 31 December 2005 and 31 December 2004:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2004	166	(106)	60
Credit to income statement	(58)	(2)	(60)
At 31 December 2004	108	(108)	–
Charge to income statement	424	105	529
At 31 December 2005	532	(3)	529

At the balance sheet date, the Group has unused tax losses of HK$8,502,000 (2004: HK$8,593,000) available for offset against future profits. A deferred tax asset of HK$3,000 (2004: HK$108,000) has been recognised in respect of HK$17,000 (2004: HK$619,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$8,485,000 (2004: HK$7,974,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

31. SHARE CAPITAL

	Number of shares	Amount HK$'000
Details of the share capital of the Company are as follows:		
Ordinary shares of HK$0.1 each:		
Authorised		
At 1 January 2004, 31 December 2004 and 31 December 2005	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2004	400,000,000	40,000
Issue of shares upon the placing and subscription	73,000,000	7,300
At 31 December 2004 and 31 December 2005	473,000,000	47,300

On 20 February 2004, a placing and subscription agreement ("Agreement") was entered into between the Company, Best Eagle International Ltd. ("Best Eagle"), a substantial shareholder of the Company, and an independent placing agent. Pursuant to the Agreement, Best Eagle agreed to place through the placing agent not less than 60,000,000 shares and up to 80,000,000 shares at the price of HK$0.138 per placing share and Best Eagle would subscribe for the same number of shares sold under the placing at the same price of HK$0.138 per share. The subscription was completed on 4 March 2004 and a total of 73,000,000 shares have been placed and subscribed. Net proceeds of HK$9,786,000 was used as general working capital of the Group.

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32. SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted at a special general meeting of the Company held on 12 February 2003 and will expire in February 2013. Under the scheme, the board of directors of the Company may, at their discretion, grant options to employees, including executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the relevant option, which must be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the relevant option.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares in respect of which options may granted under the Scheme, when aggregated with any shares subject to any other schemes shall not exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period shall not exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

The following tables disclose details of the Company's share options and movements in such holdings during the year.

Date of grant	Exercisable period	Subscription price per share HK$	Granted in 2004 and balance at 31.12.2004 and 31.12.2005
Directors			
11 October 2004	11 October 2004 to 10 October 2014	0.10	8,000,000
11 October 2004	11 October 2004 to 10 October 2014	0.13	3,000,000
			11,000,000
Other employees			
11 October 2004	11 October 2004 to 10 October 2014	0.10	5,000,000
11 October 2004	11 October 2004 to 10 October 2014	0.13	6,408,000
			11,408,000
			22,408,000

The share options to subscribe 22,408,000 shares in the Company outstanding at 31 December 2005 were granted to the directors and other employees of the Group. Consideration paid for each grant of option was HK$1. No options were exercised and cancelled during both years. No charge was recognised in the consolidated income statement in respect of the value of share options granted.

33. PLEDGE OF ASSETS

The Group had pledged the following assets to secure general banking facilities at the balance sheet date:

	2005 **HK$'000**	2004 HK$'000
Available-for-sale investments	**3,896**	–
Bank deposits	**35,098**	23,317
Investment in securities	**–**	4,968
Investment properties	**2,830**	1,950
Leasehold properties	**2,799**	5,948
Trade debtors	**1,163**	3,231
	45,786	39,414

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2005 **HK$'000**	2004 HK$'000
At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Office premises:		
Within one year	**897**	742
In the second to fifth year inclusive	**143**	88
	1,040	830
Office equipment:		
Within one year	**17**	17
In the second to fifth year inclusive	**48**	65
	65	82

Operating lease payments represent rentals payable by the Group for certain of its office premises and office equipment. Leases are fixed and negotiated for terms ranging from 12 to 60 months.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the future minimum lease payments of HK$445,000 (2004: HK$51,000) under non-cancellable operating leases in respect of rented premises which fall due within one year.

Leases are fixed and negotiated for terms ranging from 12 to 24 months.

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35. EMPLOYEE RETIREMENT BENEFITS

Prior to 1 December 2000, the Group operated a defined contribution retirement benefit scheme for its qualifying employees in Hong Kong. The assets of the scheme are held under funds managed by independent trustees. The Group and its employees participating in the scheme were each required to make contributions to the scheme calculated at 5 per cent. of individual employee's basic monthly salaries. The Group's contribution made to employees who have left the Group's employment prior to being vested fully with such contributions were forfeited. Contributions from the Group and its employees were frozen with the adoption of Mandatory Provident Fund Scheme ("MPF Scheme").

With effective from 1 December 2000, the operating subsidiaries in Hong Kong joined the MPF Scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The PRC employees of subsidiaries registered in the PRC are members of the pension scheme operated by the PRC local government. The PRC subsidiaries are required to contribute a certain percentage of the relevant portion of the payroll of these employees to the pension scheme to fund the benefits. The only obligation of the Group with respect of the pension scheme is the required contributions under the pension scheme.

The amount charged to consolidated income statement of HK$626,000 (2004: HK$674,000) represents net contributions payable to these schemes by the Group in respect of the current accounting year.

36. FOREIGN CURRENCY FORWARD CONTRACT

At 31 December 2005, the Group had no outstanding foreign currency forward contract.

At 31 December 2004, the Group entered into certain foreign currency forward contract agreements with banks. Under these foreign currency forward contract agreements, the Group committed to purchase US dollars and sell HK dollars ranged from US$17,000,000 to US$34,000,000 and HK$131,708,000 to HK$263,416,000 respectively, depending on the spot rate on the maturity date and the pre-agreed forward contract rates of respective foreign currency forward contracts.

37. CONTINGENT LIABILITY

At 31 December 2004, the Group had contingent liability arising from bills of exchange discounted with full recourse amounting to HK$441,000.

38. RELATED PARTY TRANSACTION

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 **HK$'000**	2004 HK$'000
Salaries and other short-term benefits	**5,548**	5,218
Retirement benefits scheme contributions	**394**	277
	5,942	5,495

39. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2005, the Group disposed of leasehold properties and investment properties with carrying amount of HK$2,799,000 and HK$2,830,000 respectively for an aggregate consideration of HK$9,620,000.

40. SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2005 were as follows:

Name of company	**Place and date of incorporation/ registration**	**Place of operation**	**Issued and fully paid share capital/ registered capital**	**Attributable equity interest held by the Group**	**Principal activities**
Apson Electronic Products Limited	Hong Kong 7 August 1990	Hong Kong	Ordinary shares HK$200,000	99%	Manufacturing and trading of computer components
Hoover Technologies Limited	Hong Kong 19 November 1992	Hong Kong	Ordinary shares HK$1,020,000	99%	Trading of electronic products
Kingful Investment Limited	Hong Kong 26 April 2002	Hong Kong	Ordinary shares HK$10,000	100%	Property holding
Ocean King Investment Limited	British Virgin Islands 18 March 2002	Hong Kong	Ordinary shares US$1	100%	Investment holding
Rawason Development Limited	British Virgin Islands 23 February 2000	Hong Kong	Ordinary shares US$1	100%	Investment holding
J-Link Group Limited	British Virgin Islands 27 May 2002	Hong Kong	Ordinary shares US$1	100%	Investment holding
Sunlink Geomatics Limited	British Virgin Islands 12 August 2005	Hong Kong	Ordinary shares US$1	100%	Investment holding
Sunlink Hitech (BVI) Limited	British Virgin Islands 25 November 2004	Hong Kong	Ordinary shares US$1	100%	Investment holding
Sunlink Hi-Tech Limited	Hong Kong 3 December 2004	Hong Kong	Ordinary shares HK$1,000,000	100%	Trading of electronic parts

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40. SUBSIDIARIES (continued)

Name of company	Place and date of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Group	Principal activities
Sunlink International mLogistics Limited	Hong Kong 15 June 2005	Hong Kong	Ordinary shares HK$10,000	61%	Not yet commence business
Sunlink M2M Technologies Limited	British Virgin Islands 9 June 2005	Hong Kong	Ordinary shares US$1	100%	Investment holding
Sunlink mLogistics Holdings Limited	British Virgin Islands 19 August 2005	Hong Kong	Ordinary shares HK$1,000,000	61%	Investment holding
Sunlink mSolutions Holdings Limited	British Virgin Islands 10 August 2005	Hong Kong	Ordinary shares US$1	100%	Investment holding
Sunlink mSolutions Limited (formerly known as "Sytech Electronics Limited")	Hong Kong 11 January 1999	Hong Kong	Ordinary shares HK$1,000,000	100%	Trading of electronic parts and provision of technology solutions
Sunlink Technologies Holdings Limited	British Virgin Islands 27 May 2002	Hong Kong	Ordinary shares US$700	100%	Investment holding
Sunlink Technologies Limited	British Virgin Islands 27 May 2002	Hong Kong	Ordinary shares US$1	100%	Investment holding
Sun Horse Technologies (H.K.) Limited	Hong Kong 25 July 2001	Hong Kong	Ordinary shares HK$10,000	100%	Trading of electronic parts
Sunwave Computers Limited	Hong Kong 20 August 1991	Hong Kong	Ordinary shares HK$1,170,000	92%	Trading of computer components
Sunwave Development Limited	Hong Kong 18 September 1987	Hong Kong	Ordinary shares HK$1,100,000	99%	Trading of electronic parts
Tech-Link T & E Limited	Hong Kong 28 December 2000	Hong Kong	Ordinary shares HK$500,000	100%	Trading of electronic parts
駿泰陽軟件科技(深圳)有限公司 (known as "Jun Tai Yang Software Technologies (Shenzhen) Limited" for identification purpose)*	PRC 7 August 2000	PRC	Registered capital HK$3,000,000	100%	Provision of technology solutions
駿泰陽科技(深圳)有限公司 (known as "Jun Tai Yang Technologies (Shenzhen) Limited" for identification purpose)*	PRC 25 July 2003	PRC	Registered capital HK$6,000,000	100%	Design and production of electronic parts

* These subsidiaries registered in the PRC are wholly foreign owned enterprises.

40. SUBSIDIARIES (continued)

The Company directly holds the entire interest in Sunlink Technologies Holdings Limited. The interests of all other companies are indirectly held by the Company.

None of the subsidiaries had any debt securities outstanding at 31 December 2005 or at any time during the year.