1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The Company's immediate holding company is Barrican Investments Corporation, a company incorporated in the British Virgin Islands. In the opinion of the directors, the ultimate holding company is The Grande International Holdings Limited, a company incorporated in the British Virgin Islands.

During the year, the Company acts as an investment holding company. The principal activities of the principal subsidiaries and associates are set out in notes 41 and 16 respectively.

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

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information on page 6 of the annual report.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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 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 adoption of these new and revised Standards and Interpretations 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:

HKAS 1	Presentation of financial statement
HKAS 17	Leases
HKAS 21	The effects of changes in foreign exchange rates
HKAS 28	Investments in associates
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 36	Impairment of assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HKAS 40	Investment property
HKFRS 3	Business combinations

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

(a) Presentation of financial statement:

The adoption of HKAS 1 has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) Owner-occupied leasehold interest in land:

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and carried at valuation less accumulated depreciation. In the current year, 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. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. In restating the Group's results for prior years on the basis of the new and revised policies to comply with HKAS 17, the capital reserve (reflecting the revaluation surplus in prior years) and deferred tax liabilities of the Group as at 1 January 2004 have been reduced by HK$96 million and HK$20 million, respectively, in respect of the reversal of surplus on revaluation of leasehold land in prior years, the retained profits brought forward as at 1 January 2004 have been reduced by HK$16 million, and the net profit of the Group for the year ended 31 December 2004 have been increased by HK$4 million in respect of the adjustments for amortisation of land lease prepayment and deferred taxation. As a result of this change in accounting policy, the profit for the year has been increased by HK$4 million.

(c) Business combinations:

The adoption of HKFRS 3, HKAS 21, HKAS 36 and HKAS 38 has resulted in changes in accounting policies in impairment of assets and goodwill.

Goodwill:

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$124 million has been transferred to the Group's retained earnings on 1 January 2005. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of HK$36 million with a corresponding decrease in the cost of goodwill (note 21). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year, the profit for the year has been increased by HK$16 million.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) Business combinations: *(continued)*

In the current year, the Group has also applied HKAS 21 "The effects of changes in foreign exchange rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

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 the income statement 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, and 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. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005, of which negative goodwill of HK$237 million was previously recorded in reserves and of HK$4 million was previously presented as a deduction from assets. A corresponding adjustment to the Group's retained earnings of HK$241 million has been made. As a result of this change in accounting policy, no negative goodwill has been released to the income statement in the current year, the profit for the year has been reduced by HK$1 million and increased by HK$1 million in respect of the recognition of discount on the increased investment in subsidiaries.

Intangible assets:

In previous years, brands and trademarks were amortised over their estimated useful lives of 20 years. HKAS 38 requires intangible assets to be assessed at the individual asset level as having either finite or indefinite life. A finite-life intangible asset is amortised over its estimated useful life whereas an intangible asset with an indefinite useful life is carried at cost less accumulated impairment losses (if any). Intangible assets with indefinite lives are not subject to amortisation but are tested for impairment annually or more frequently when there are indications of impairment. In accordance with the transitional provisions in HKAS 38, the Group reassessed the useful lives of the brands and trademarks on 1 January 2005 and concluded that all brands and trademarks with a total carrying amount of HK$1,315 million recognised under the predecessor Standard have indefinite useful lives. The Group has applied the revised useful lives prospectively and discontinued amortising the brands and trademarks with indefinite useful lives from 1 January 2005 onwards. No amortisation has been charged in relation to the brands and trademarks with indefinite useful lives for the year ended 31 December 2005. As a result, the profit for the year has been increased by HK$78 million.

Because the revised accounting policies have been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(d) Financial instruments:

The Group has not recognised the derivative financial instruments on the balance sheet prior to 1 January 2005. The Group has applied the relevant transitional provisions in HKAS 39. The adoption of HKAS 39 had no material effect on the results for the current accounting periods.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement and disclosure of financial instruments. By 31 December 2004, the Group classified and measured its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as trading securities, non-trading securities or held-to-maturity investments as appropriate. Both trading securities and non-trading securities are measured at fair value. Unrealised gains or losses of trading securities are reported in the income statement for the period in which gains or losses arise. Unrealised gains or losses of non-trading securities are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. 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 investments held for trading, investments available-for-sale, loans and receivables, or held-to-maturity financial assets. Investments held for trading and investments available-for-sale are carried at fair value, with changes in fair values recognised in the income statement and equity, respectively. Loans, receivables and held-to-maturity financial assets are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Upon the adoption of the HKAS 39, trading securities and non-trading securities reported under SSAP 24 were classified as investments held for trading and investments available-for-sale, respectively. No adjustment to accumulated profit at 1 January 2005 was required.

(e) Investment properties:

The adoption of HKAS 40 has resulted in a change in accounting policy relating to investment properties. In prior years, the change in the fair value of investment properties was recognised in the investment property revaluation reserve. The deficit of this reserve was charged to the income statement and any subsequent increases were credited to the income statement up to the amount previously charged. Following the adoption of HKAS 40, gains or losses arising from changes in fair value of investment properties are included in the income statement in the period in which they arise.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(e) Investment properties: *(continued)*

In restating the Group's results for prior periods on the basis of the adoption of HKAS 40, the amount held in the investment property revaluation reserve of HK$2 million at 1 January 2004 has been transferred to the Group's retained earnings. As a result of restating the comparative figures for 2004, the profit for 2004 has been increased by HK$1 million. The change in this accounting policy resulted in an increase in profit for the year of HK$1 million.

(f) Derivatives:

The Group has not recognised the derivative financial instruments on the balance sheet prior to 1 January 2005. The Group has applied the relevant transitional provisions in accordance with HKAS 39. The adoption of HKAS 39 had no material effect on the results for the current accounting period.

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 non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in income statement for the period in which they arise. No adjustment to accumulated profit as at 31 December 2004 was required as HKAS 39 prescribes the recognition of derivatives at fair value in the balance sheet to take effect prospectively from 1 January 2005. The change in this accounting policy resulted in a reduction in profit for the year of HK$1 million.

(g) 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 to the transfers of financial assets from 1 January 2005 onwards. As a result, the Group's bills receivable discounted with full recourse amounting to HK$2 million which were derecognised prior to 1 January 2005 have not been restated. As at 31 December 2005, the Group's bills receivables discounted with full recourse have not been derecognised. Instead, the related borrowings of HK$91 million have been recognised and included under bank loans on the balance sheet date. The relevant finance costs incurred in order to obtain such borrowings are included in the carrying amount of the borrowings on initial recognition and amortised over the terms of the borrowings using the effective interest method. This change in accounting policy has had no material effect on the results for the current year.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(h) Investments in associates

HKAS 28 requires an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has significant influence over an investee.

Under the revised accounting policy, Advanced Microsensors Inc ("AMS") previously classified as long-term investments, is now considered an associate of the Group by virtue of the Group's investment in convertible preference shares, which when converted, would constitute 41% of the equity interest of AMS. As the Group's investment in AMS has been fully impaired in the prior years, the change in treatment of AMS has no material effect on the financial position or results of the Group for the current or prior year.

Comparative figures have also been reclassified.

(i) 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 year is HK$98 million (2004: HK$5 million) and is further detailed in the individual notes above.

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

	2005 **HK$** **million**	2004 HK$ million
Other operating income	**1**	1
Administrative expenses	**3**	3
Other operating expenses	**93**	–
Tax	**1**	1
	98	5

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(i) Summary of the effects of the changes in accounting policies: *(continued)*

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

	As at 31 December 2004 HK$ million	Adjustments HK$ million	(Restated) As at 31 December 2004 HK$ million	Adjustments HK$ million	(Restated) As at 1 January 2005 HK$ million
Impact of HKAS 17:					
Property, plant and equipment	1,116	(393)	723	–	723
Prepaid lease payments (non-current)	–	258	258	–	258
Prepaid lease payments (current)	–	6	6	–	6
Deferred tax	(12)	21	9	–	9
Impact of HKFRS 3:					
Derecognition of negative goodwill	(4)	–	(4)	4	–
Total effects on assets and liabilities	1,100	(108)	992	4	996
Share premium	812	–	812	361	1,173
Investment revaluation reserve	16	(3)	13	–	13
Capital reserve	443	(96)	347	(298)	49
Retained profits	720	(45)	675	(59)	616
Minority interests	476	36	512	–	512
Total effects on equity	2,467	(108)	2,359	4	2,363

The financial effects of the application of the HKFRSs to the Group's equity on 1 January 2004 are summarised below:

	As at 1 January 2004 HK$ million	Adjustments HK$ million	(Restated) As at 1 January 2004 HK$ million
Investment revaluation reserve	(2)	(2)	(4)
Capital reserve	455	(96)	359
Retained profits	910	(50)	860
Minority interests	540	36	576
Total effects on equity	1,903	(112)	1,791

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(j) Standards amendments and interpretations issued but are not yet effective:

The Group has not early applied the following new and amended HKASs and HKFRSs (hereinafter collectively referred to as "new HKFRSs") issued by HKICPA that have been issued but are not yet effective.

#	HKAS 1 (Amendment)	Capital disclosures
*	HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
*	HKAS 21 (Amendment)	Net investment in a foreign operation
*	HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
*	HKAS 39 (Amendment)	The fair value option
*	HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts
*	HKFRS 6	Exploration for and evaluation of mineral resources
#	HKFRS 7	Financial instruments: Disclosures
*	HK(IFRIC)-Int 4	Determining whether an arrangement contains a lease
*	HK(IFRIC)-Int 5	Rights to interests arising from decommissing, restoration and environmental rehabilitation funds
o	HK(IFRIC)-Int 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment

Effective for annual periods beginning on or after 1 January 2007.
* Effective for annual periods beginning on or after 1 January 2006.
o Effective for annual periods beginning on or after 1 December 2005.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amount or fair values, as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with HKFRS issued by HKICPA. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 December 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their respective dates of acquisition or disposal, respectively. All intercompany transactions and balances within the Group 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 recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- on the sale of goods, when the goods are delivered and titled, significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

- on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;

- 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;

- income from properties held for sale is recognised on the execution of a binding sales agreement;

- income from sale of investments held for trading is recognised on a trade-date basis and the execution of a binding contract; and

- royalties income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in income statement.

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.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2001 previously recognised in reserves has been transferred to the Group's retained earnings on 1 January 2005.

Capitalised goodwill arising on acquisitions during the period from 1 January 2001 to 31 December 2004, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

On disposal of a subsidiary or an assoicate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Discount on acquisition

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in income statement. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

All negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's retained earnings.

Segment reporting

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

In accordance with the Group's internal management reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Inter-segment transfer pricing is based on cost plus an appropriate margin.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before inter-segment balances and inter-segment transactions are eliminated as part of the consolidation.

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

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses, except for freehold land which is stated at cost less impairment loss and is not depreciated.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to 30 September 1995, the revaluation increase arising on the revaluation of these assets was credited to reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life as set out below:

Freehold buildings outside Hong Kong	5 to 50 years
Long term leasehold buildings outside Hong Kong	45 years
Medium term leasehold buildings in Hong Kong	20 to 40 years
Medium term leasehold buildings outside Hong Kong	Over the lease terms
Plant, equipment and other assets	2 to 15 years
Moulds	2 to 5 years

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Upon the disposal of properties which have been revalued, the relevant portion of the revaluation reserve attributable to the properties realised is transferred directly to retained profits as a reserve movement.

An item of property, plant and equipment is derecognised upon disposal or when on 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 income statement in the year in which the item is derecognised.

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 income statement for the period in which they arise.

Leased assets

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments in equity securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. For investments in equity available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For investments available-for-sale, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

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 are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in income statement 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.

Financial liabilities and equity

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity *(continued)*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below :

– Financial liabilities:

  Financial liabilities including bank borrowings, other borrowings, trade and other payables 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.

Derivative instruments

The Group has applied HKAS 39 "Financial Instruments : Recognition and Measurement" prospectively from 1 January 2005. Derivative instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in income statement as they arise.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through income statement. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Brands and trademarks

Prior to 1 January 2005, brands and trademarks are amortised over their estimated useful lives but not more than 20 years and stated at their cost less accumulated amortisation and impairment losses.

On 1 January 2005, the Group reassessed the useful lives of the brands and trademarks and concluded that all brands and trademarks have indefinite useful lives. The brands and trademarks with indefinite lives are not subject to amortisation from 1 January 2005 onwards, but are tested for impairment annually or more frequently when there are indications of impairment.

Gains or losses arising from derecognition of brands and trademarks are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and deferred development costs

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 income statement in the period in which it is incurred.

Impairment

– Tangible assets

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 such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of individual assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, however, the increased carrying amount would not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment *(continued)*

– Intangible assets:

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

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.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation on non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the Group and reported using the historical exchange rate prevailing at the date of the acquisition.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes 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.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as the parent 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 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimated impairment of goodwill, brands and trademarks

Determining whether goodwill, brands and trademarks are impaired requires an estimation of the value in use of the cash-generating units to which goodwill, brands and trademarks have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2005, the carrying amount of goodwill, brands and trademarks are HK$269 million and HK$1,311 million, respectively. Particulars of the impairment test are disclosed in note 22.

Income taxes

As at 31 December 2005, a deferred tax asset of HK$17 million in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

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 (note 26) are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

Certain trade receivables and borrowings of the Group are denominated in foreign currencies. 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.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings (note 28). In relation to these fixed-rate borrowing, the Group aims at keeping borrowings at variable rates. In order to achieve this result, the Group entered into interest rate swaps (note 26) to hedge against its exposures to changes in fair values of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings.

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 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 delegated a team responsible 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, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

Price risk

The Group's investments available-for-sale and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity and debt security price risk. The management reviews the market situation and consults to the professionals to monitor the exposure periodically.

6. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the year ended 31 December 2005:

	2005 HK$ million	(Restated) 2004 HK$ million
Associates:		
Purchases of materials	**75**	94
Trade and other receivables	**3**	–
Trade payables	**(12)**	(7)

The fair value of the amount due from / (to) associates at 31 December 2005 was approximate to the corresponding carrying amount.

	2005 HK$ million	(Restated) 2004 HK$ million
Related companies:		
Settlement of security trading	**225**	–
Purchases of materials	**4**	–
Research and development cost charged by related company	**4**	–
Trade receivables	**4**	–
Other payables	**(47)**	(12)

During the year, the settlement of an option arrangement of HK$225 million from a third party to the Group had been made through a related company of which the Chairman of the Group has a deemed beneficial benefit. There is no gain or loss incurred to the Company of this arrangement. The amounts due from/to the related companies are unsecured, non-interest bearing and repayable on demand.

6. RELATED PARTY TRANSACTIONS *(continued)*

(b) Compensation of key management personnel:

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

	2005	(Restated) 2004
	HK$ million	HK$ million
Short-term employee benefits	**13**	16

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

(c) Guarantee

The Chairman provided a personal guarantee amounting to HK$50 million (2004: HK$50 million) to the Company for a banking facility.

7. TURNOVER

Turnover represents the net invoiced value of goods sold after allowances for returns and trade discounts; royalty income and securities trading but excludes intra-group transactions.

An analysis of the Group's turnover by principal activity for the year is as follows:

	2005	2004
	HK$ million	HK$ million
By principal activity:		
Branded distribution	**3,707**	3,660
Electronics manufacturing services	**2,331**	2,762
	6,038	6,422

8. PROFIT BEFORE TAX

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

	2005 HK$ million	(Restated) 2004 HK$ million
Depreciation of property, plant and equipment	**94**	115
Operating lease rentals:		
Land and buildings	**18**	24
Interest on:		
Bank overdrafts and loans wholly repayable within five years	**53**	30
Bank loans wholly repayable beyond five years	**3**	2
Auditors' remuneration	**7**	6
Release of negative goodwill included in other operating income	**–**	(1)
Amortisation of goodwill included in other operating expenses	**–**	16
Amortisation of brands and trademarks included in other operating expenses	**–**	78
Amortisation of other assets included in other operating expenses	**24**	14
Amortisation of prepaid lease payments	**6**	6
Allowance for doubtful debts	**3**	10
Staff costs:		
Salaries and other benefits	**181**	162
Retirement benefit costs	**2**	6
Cost of inventories recognised as an expenses	**4,816**	5,214
Net foreign exchange (gain)/losses	**(57)**	35
Impairment loss recognised in respect of investments available-for-sale	**6**	12
Research and development expenditure	**17**	–
Gain on disposal of property, plant and equipment	**–**	(24)
Change in fair value of investments held for trading	**(70)**	(129)
Change in fair value of derivative instruments	**1**	–
Net increase in fair value of investment properties	**(1)**	(1)
Recognition of discount on increased investment in subsidiaries	**(1)**	–
Gain on disposal of investments available-for-sale	**–**	(10)
Gain on disposal of properties held for sale	**–**	(6)
Share of tax of associates included in share of loss of associates	**(1)**	–
Interest income	**(6)**	(10)

9. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS

Directors' Remuneration

	Fees HK$ million	Basic salaries, housing allowances and other benefits HK$ million	Discretionary bonuses HK$ million	Total emoluments HK$ million
2005				
Mr. Christopher W. Ho	–	1.3	–	1.3
Mr. Adrian C. C. Ma	–	1.8	–	1.8
Mrs. Christine L. S. Asprey	–	0.6	–	0.6
Mr. Michael A. B. Binney	–	1.1	–	1.1
Mr. C. F. Lam	–	2.0	–	2.0
Mr. Paul K. F. Law	–	1.0	–	1.0
Mr. Johnny W. H. Lau	0.1	–	–	0.1
Mr. Martin I. Wright	0.1	–	–	0.1
	0.2	7.8	–	8.0
2004				
Mr. Christopher W. Ho	–	1.3	–	1.3
Mr. Adrian C. C. Ma	–	1.8	–	1.8
Mrs. Christine L. S. Asprey	–	0.6	–	0.6
Mr. Michael A. B. Binney	–	1.1	–	1.1
Mr. C. F. Lam	–	2.0	1.5	3.5
Mr. Paul K. F. Law	–	1.0	0.2	1.2
Mr. Samuel K. Yuen (resigned on 16 February 2004)	–	0.2	–	0.2
Ms. Anita S. C. Chiu (resigned on 9 September 2004)	–	–	–	–
Mr. Johnny W. H. Lau (appointed on 9 September 2004)	0.1	–	–	0.1
Mr. Herbert H. K. Tsoi	0.1	–	–	0.1
Mr. Martin I. Wright (appointed on 16 September 2004)	0.1	–	–	0.1
	0.3	8.0	1.7	10.0

Mr. Herbert H. K. Tsoi waived the directors' emoluments of HK$0.2 million for the year ended 31 December 2005.

The remuneration package of the directors are reviewed and approved by the Remuneration Committee. Details please see Corporate Governance Report on page 14.

For the 2004 annual report, the directors' remuneration was disclosed as a total of HK$17 million which included allocation of overheads and expenses charged to group companies. The actual remuneration to directors in respect of emoluments amounted to HK$10 million as stated above.

9. DIRECTORS' REMUNERATION AND EMPLOYEE COSTS *(continued)*

Employee Costs

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

	2005	2004
	HK$ million	HK$ million
Basic salaries, housing, other allowances and benefits in kind	**5**	5
Bonuses paid and payable	**–**	1
	5	6

The number of non-directors whose remuneration fell within the bands set out below is as follows:

HK$	**2005** **Number of non-directors**	2004 Number of non-directors
1,000,001 – 1,500,000	**1**	–
1,500,001 – 2,000,000	**2**	–
2,500,001 – 3,000,000	**–**	2

The staff is entitled to receive a basic salary according to their contracts which are reviewed annually by the Company. In addition, staff is entitled to receive a discretionary bonus which is decided by the Company at its absolute discretion having regard to his/her performance.

10. TAX

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

	2005 HK$ million	(Restated) 2004 HK$ million
The tax charge/(credit) comprises:		
Current year provision		
Hong Kong	**4**	3
Overseas	**6**	–
Under provision in prior year		
Hong Kong	**4**	7
Deferred tax (Note 18)		
Hong Kong	**(1)**	–
	13	10

Reconciliation between tax charge and profit before tax at applicable tax rates is as follows:

	2005 HK$ million	(Restated) 2004 HK$ million
Profit before tax	**315**	525
Notional tax calculated at Hong Kong profits tax rate of 17.5%	**55**	92
Effect of different tax rates in overseas jurisdictions	**(20)**	1
Income and expenses not subject to tax	**(77)**	(124)
Unused tax losses not recognised	**55**	40
Utilisation of unrecognised tax losses	**(3)**	(6)
Under provision in prior year	**4**	7
Others	**(1)**	–
	13	10

11. DISTRIBUTION TO SHAREHOLDERS

	2005 **HK$ million**	2004 HK$ million
Interim dividend of HK12 cents (2004: HK11 cents) per share on 460.2 million shares	**55**	51
2004 final dividend of HK19 cents (2003: HK10 cents) per share on 460.2 million shares	**88**	46
2003 special dividend by way of a distribution in specie of one share of Sansui Electric Co., Ltd. ("SEC"), a company listed on the first section of the Tokyo Stock Exchange, for every two shares of the Company (the market value at close of business on distribution date of SEC was 38 Yen per share which equates to a special dividend of HK$1.40 per share)	**–**	644
	143	741

A final dividend in respect of 2005 of HK12 cents per share on 460.2 million shares amounting to a total of HK$55 million was approved by the Board after the balance sheet date, and not recognised as a liability as at 31 December 2005.

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data :

	2005 HK$ million	(Restated) 2004 HK$ million
Earnings for the purposes of basic earnings per share:		
Profit attributable to shareholders of the Company (2004 : as previously reported)	**302**	551
Adjustment on adoption of HKAS 17	**-**	4
Adjustment on adoption of HKAS 40	**-**	1
Earnings for the purposes of basic earnings per share (2004 : as restated)	**302**	556
Effect of dilutive potential ordinary shares:		
Interest on Convertible Debenture	**1**	-
Earnings for the purposes of diluted earnings per share	**303**	556

	2005 Number of ordinary shares million	2004 Number of ordinary shares million
Weighted average number of ordinary shares for the purposes of basic earnings per share	**460.2**	460.2
Effect of dilutive potential ordinary shares :		
Convertible Debenture	**2.0**	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**462.2**	460.2

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$ million	Plant, equipment and other assets HK$ million	Moulds HK$ million	Total HK$ million
Cost or valuation:				
At 1 January 2004 –				
– as previously reported	947	1,171	231	2,349
– adjustment on adoption of HKAS 17	(472)	–	–	(472)
– as restated	475	1,171	231	1,877
Foreign currency adjustment	–	5	–	5
Additions	1	40	14	55
Disposal of subsidiaries	(26)	(6)	–	(32)
Disposals	(29)	(243)	(37)	(309)
At 31 December 2004 and 1 January 2005 (as restated)	421	967	208	1,596
Foreign currency adjustment	2	4	–	6
Additions	3	49	10	62
Disposals	(3)	(34)	(41)	(78)
At 31 December 2005	423	986	177	1,586
Accumulated depreciation and impairment:				
At 1 January 2004 –				
– as previously reported	138	729	159	1,026
– adjustment on adoption of HKAS 17	(70)	–	–	(70)
– as restated	68	729	159	956
Foreign currency adjustment	–	4	–	4
Provided during the year	15	75	25	115
Disposal of subsidiaries	(11)	(5)	–	(16)
Disposals	(7)	(145)	(34)	(186)
At 31 December 2004 and 1 January 2005 (as restated)	65	658	150	873
Provided during the year	11	65	18	94
Disposals	(1)	(30)	(41)	(72)
At 31 December 2005	75	693	127	895
Carrying values:				
At 31 December 2005	348	293	50	691
At 31 December 2004 (as restated)	356	309	58	723

No plant and machinery was held under financial leases at 31 December 2005. The net book value of plant and machinery held under finance leases at 31 December 2004 amounted to HK$20 million.

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

Buildings comprise:

	2005	(Restated) 2004
	HK$ million	HK$ million
Long-term leasehold buildings outside Hong Kong:		
At cost	**60**	61
Medium-term leasehold buildings in Hong Kong:		
At cost	**11**	11
At 1993 professional valuation	**63**	63
	74	74
Medium-term leasehold buildings outside Hong Kong:		
At cost	**231**	228
At 1993 professional valuation	**58**	58
	289	286
Total cost or valuation	**423**	421

The valuation of medium-term leasehold buildings in Hong Kong of HK$63 million was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market, existing use basis as at 31 December 1993.

The valuation of medium-term leasehold buildings outside Hong Kong of HK$58 million was carried out by Chesterton Petty Limited, a firm of independent professional valuers, on an open market value basis as at 31 January 1993.

Had the revalued assets been stated at their cost less accumulated depreciation, the carrying amount of buildings as at 31 December 2005 would be restated at HK$301 million (2004: HK$308 million).

Certain of the above properties and plant and machinery held by the Group were pledged to secure banking and finance lease facilities (note 38).

14. PREPAID LEASE PAYMENTS

	2005 HK$ million	(Restated) 2004 HK$ million
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	**52**	53
Leasehold land outside Hong Kong:		
Long-term lease	**7**	7
Medium-term lease	**199**	204
	258	264
Analysed for reporting purposes as:		
Current portion (included in prepayments, deposits and other assets)	**6**	6
Non-current portion	**252**	258
	258	264

15. INVESTMENT PROPERTIES

	2005 HK$ million	2004 HK$ million
At fair value		
At beginning of year	**58**	60
Foreign currency adjustment	**(5)**	–
Disposals	**–**	(3)
Net increase in fair value recognised in income statement	**1**	1
At end of year	**54**	58

15. INVESTMENT PROPERTIES *(continued)*

The carrying amount of investment properties comprises land as follows:

	2005 HK$ million	2004 HK$ million
Land outside Hong Kong:		
Freehold	**40**	45
Medium-term leasehold	**8**	6
	48	51
Medium term leasehold land in Hong Kong	**6**	7
Carrying amount	**54**	58

The investment properties outside Hong Kong of HK$40 million was revalued by Allsop LLP, an independent professional valuators, by reference to market evidence of transaction prices for similar properties as at 31 December 2005. The valuation was carried out in accordance with the Practice Statements contained within the Appraisal and Valuation Standards 2003 prepared by the Royal Institution of Chartered Surveyors.

The investment properties in Hong Kong and Macau were valued at HK$14 million as at 31 December 2005 by Dudley Surveyors Limited, an independent professional valuators, by reference to market evidence of transaction prices for similar properties. Dudley Surveyors Limited is a Chartered Surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

All the Group's investment properties are rented out under operating leases, to earn rentals or for capital appreciation purposes are measured using the fair value model.

16. INTERESTS IN ASSOCIATES

	2005 HK$ million	(Restated) 2004 HK$ million
Cost of investment in associates	**407**	–
Share of post-acquisition losses	**(1)**	–
	406	–
Fair value of listed investments	**237**	–

16. INTERESTS IN ASSOCIATES *(continued)*

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

Name	Notes	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group 2005	2004	Principal activities
Emerson Radio Corp.+	(a)	United States of America	37%	–	Engaged in the consumer electronics industry
Advanced Microsensors, Inc.	(b)	United States of America	41%	41%	Development and manufacturing of magnetic materials

+ Listed on the American Stock Exchange of United States of America.

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

Notes:

(a) On 25 August 2005, the Group entered into a sale and purchase agreement with Mr. Gottfried Ludwig Prentice Jurick ("GLPJ"), an independent third party of the Company and connected persons (as defined in the Listing Rules) of the Company, whereby the Group agreed to acquire from GLPJ the 10 million common shares in the capital of Emerson Radio Corp. ("ERC"), a company listed on the American Stock Exchange of The United States of America, representing approximately 37% of the entire issued shares capital of ERC. The consideration for the acquisition of ERC of US$52 million was payable in cash of US$26 million and the remaining balance was satisfied by a Convertible Debenture issued by the Company in the face amount of US$26 million. The sale consideration was arrived with reference to the unaudited net asset value of ERC as at 30 June 2005 which amounted to US$53.7 million together with a valuation of the trademarks of ERC of US$59.8 million. This transaction was completed on 5 December 2005. Included in the cost of investment in associates is goodwill of HK$36 million arising on the acquisition of ERC.

(b) No share of the net assets and results of Advanced Microsensors, Inc. is recorded as the investee is considered an associate of the Group by virtue of the Group's investment in convertible preference shares, which when converted, would constitute 41% of the equity interest of the investee.

16. INTERESTS IN ASSOCIATES *(continued)*

(c) The summarised financial information in respect of the Group's associates is set out below:

	2005	(Restated) 2004
	HK$ million	HK$ million
Total assets	**799**	49
Total liabilities	**(236)**	(11)
Net assets	**563**	38
Group's share of net assets of associates	**198**	–
Revenue	**241**	121
(Loss)/profit for the year	**(13)**	9
Group's share of result of associates for the year	**(1)**	–

17. INVESTMENTS AVAILABLE-FOR-SALE

	2005	2004
	HK$ million	HK$ million
Listed investments, at market value outside Hong Kong	**21**	21
Unlisted investments, at cost less impairment	**87**	615
	108	636

Included in the unlisted investments at 31 December 2004 are non-interest bearing convertible bonds ("the Bonds") issued by SEC to the Group with a principal amount of 7.8 billion Yen (equivalent to HK$593 million). The Bonds are unsecured, non-interest bearing and will mature in December 2007. The Group has the rights, at any time within a period of three years from the date of issue, to convert part or all of the principal amount of the Bonds outstanding into shares of SEC at the initial conversion price of 26 Yen per share. During the year 2005, the Bonds were converted to SEC shares classified as investments held for trading under HKAS 39 and are disclosed in note 25.

18. DEFERRED TAX

(a) Deferred tax assets and liabilities recognised:

The major components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year are as follows:

	Accelerated tax depreciation HK$ million	Tax losses HK$ million	Others HK$ million	Total HK$ million
At 1 January 2004 (as previously reported)	(29)	18	–	(11)
Adjustment on adoption of HKAS 17	20	–	–	20
At 1 January 2004 (as restated)	(9)	18	–	9
Credited/(charged) to income statement (Note 10)	1	(1)	–	–
At 31 December 2004 and 1 January 2005	(8)	17	–	9
Charged to equity (Note 34)	–	–	(6)	(6)
Credited to income statement (Note 10)	1	–	–	1
At 31 December 2005	(7)	17	(6)	4

(b) Deferred tax assets not recognised:

The deferred tax assets have not been recognised in respect of the following items:

	2005 HK$ million	2004 HK$ million
Tax losses carried forward	**7,361**	9,301
Accelerated depreciation allowances	**278**	263
	7,639	9,564

19. BRANDS AND TRADEMARKS

	2005 HK$ million	2004 HK$ million
Gross amount		
At beginning of year	**1,543**	1,541
Foreign currency adjustment	**(4)**	2
At end of year	**1,539**	1,543
Accumulated amortisation:		
At beginning of year	**228**	150
Provided for the year	**–**	78
At end of year	**228**	228
Carrying amount at end of year	**1,311**	1,315

Prior to 1 January 2005, brands and trademarks are amortised over their estimated useful lives but not more than 20 years and stated at their cost less accumulated amortisation and impairment losses.

On 1 January 2005, the Group reassessed the useful lives of the brands and trademarks and concluded that all brands and trademarks have indefinite useful lives. As a result, the brands and trademarks are not subject to amortisation from 1 January 2005 onwards, but are tested for impairment annually or more frequently when there are indications of impairment. Particulars of the impairment testing are disclosed in note 22.

20. OTHER ASSETS

	2005 HK$ million	2004 HK$ million
Deferred development costs:		
At beginning of year	**149**	72
Additions	**15**	77
At end of year	**164**	149
Accumulated amortisation and impairment:		
At beginning of year	**50**	36
Provided for the year	**24**	14
At end of year	**74**	50
Carrying amount at end of year	**90**	99

The deferred development costs have definite useful lives and amortised on a straight-line basis over 3 to 5 years.

21. GOODWILL/(NEGATIVE GOODWILL)

	Goodwill		**Negative goodwill**	
	2005 HK$ million	2004 HK$ million	**2005 HK$ million**	2004 HK$ million
Gross amount				
At beginning of year	**304**	304	**(6)**	(5)
Acquisition of subsidiary	**1**	–	**–**	–
Additional interest in subsidiaries	**–**	–	**–**	(1)
Adjustment on adoption of HKFRS 3	**(36)**	–	**6**	–
At end of year	**269**	304	**–**	(6)
(Amortisation)/release				
At beginning of year	**(36)**	(20)	**2**	1
Provided for the year	**–**	(16)	**–**	1
Adjustment on adoption of HKFRS 3	**36**	–	**(2)**	–
At end of year	**–**	(36)	**–**	2
Carrying amount at end of year	**269**	268	**–**	(4)

21. GOODWILL/(NEGATIVE GOODWILL) *(continued)*

Prior to 1 January 2005, the goodwill/(negative goodwill) is (amortised)/released to the income statement on a straight-line basis of 20 years. According to HKFRS 3 and HKAS 36, the Group ceased amortisation of goodwill from 1 January 2005 and eliminated the accumulated amortisation of goodwill as at 31 December 2004 with the cost of goodwill, the carrying amount of negative goodwill was derecognised with a corresponding adjustment to the retained earnings at 1 January 2005.

Goodwill arising on acquisitions on or after 1 January 2005 is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Particulars of the impairment testing are disclosed in note 22.

From 1 January 2005 onwards, any discount on acquisition of a subsidiary is recognised immediately in the income statement.

22. IMPAIRMENT TESTING ON GOODWILL, BRANDS AND TRADEMARKS

Goodwill, brands and trademarks are allocated to the Group's cash-generating units ("CGU") identified according to business segment as follows:

	Goodwill		**Brands and trademarks**	
	2005 HK$ million	2004 HK$ million	**2005 HK$ million**	2004 HK$ million
Branded distribution	**205**	204	**1,311**	1,315
Electronics manufacturing services	**64**	64	**–**	–
	269	268	**1,311**	1,315

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial projections approved by management. A five-year period financial budget is used for testing the impairment of goodwill. The brands and trademarks are considered by management as having indefinite useful lives. A ten-year financial budget base on management's approved long-term plans of product development and business expansion is used for testing the impairment of these brands and trademarks.

The discount rate used for value-in-use calculations is in a range of 12% to 15%. Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates of 2% to 3% used are consistent with the forecasts included in industry reports.

23. INVENTORIES

	2005 HK$ million	2004 HK$ million
Raw materials	**260**	307
Work in progress	**49**	52
Finished goods	**346**	375
	655	734

24. ACCOUNTS, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers. The aged analysis of trade and other receivables (net of allowance for doubtful debts) is as follows:

	2005 HK$ million	2004 HK$ million
0 – 3 months	**511**	645
3 – 6 months	**31**	16
Over 6 months	**106**	40
	648	701

The fair value of the Group's accounts, bills and other receivables at 31 December 2005 was approximate to the corresponding carrying amount.

25. INVESTMENTS HELD FOR TRADING

	2005 HK$ million	2004 HK$ million
Listed investments, at market value		
Hong Kong	**20**	–
Outside Hong Kong (Note)	**1,398**	415
Unlisted investments, at fair value	**1**	1
	1,419	416

Note:

Included in the listed investments is the Group's investment in SEC, with a carrying amount of HK$1,398 million (2004: HK$415 million).

In preparing the financial statements, the directors have given careful consideration to the accounting treatment of Sansui Electric Co., Ltd. ("SEC"), a company listed on the first section of the Tokyo Stock Exchange. SEC is a company principally engaged in the manufacture and sales of audio, visual and other electronics products.

At 31 December 2005, the Group's total investment in SEC represents a 49.51% holding of the ordinary shares of SEC (2004 : 18.66%). The Company records the shareholdings of 48.78% in SEC as investments held for trading in current assets with a carrying value of HK$1,398 million and 0.73% as investments available-for-sale in non-current assets amounting to HK$21 million.

In the view of the directors, SEC is not regarded as an associate of the Group as the Group does not intend to hold the shares in SEC for long term purposes. Furthermore, the Company is not in a position to exercise significant influence, as it does not have control or joint control over the financial and operating policy decisions of SEC.

In February 2006, the Group issued Exchangeable Bonds of US$50 million. The holders of the Exchangeable Bonds have an exchange right for SEC shares. Assuming full exercise of the Exchangeable Bonds, the shareholding of the Group in SEC will be reduced by 10.76%. Since the market has strong interest in arranging another offering of the exchangeable bonds, the Company considers issuing additional similar exchangeable bonds in the near future. Assuming the exercise of further exchangeable bonds, the shareholding of the Group in SEC will then be further reduced. Accordingly, the directors consider that the investment in SEC, i.e. 48.78%, should therefore be accounted for as investments held for trading under HKAS 39 "Financial instruments : recognition and measurement", and is therefore carried at fair value with valuation movements dealt with in the income statement for the year.

26. DERIVATIVE INSTRUMENTS

	2005		2004	
	Assets HK$ million	**Liabilities HK$ million**	Assets HK$ million	Liabilities HK$ million
Held for trading or not qualifying as hedges:				
Derivatives embedded in non-derivative host contract	**–**	**(23)**	–	–
Forward foreign exchange contracts	**–**	**(12)**	–	–
Interest rate swaps	**11**	**–**	–	–
Classified as current assets/(liabilities)	**11**	**(35)**	–	–

Interest rate swaps mature at various dates up to 9 July 2007 with variable interest rates.

2004 comparative figures are not provided as HKAS 39 "Financial instruments: Recognition and measurement" prescribes the recognition of derivatives at fair value in the balance sheet to take effect prospectively from 1 January 2005.

27. ACCOUNTS AND BILLS PAYABLES

The aged analysis of accounts and bills payables is as follows:

	2005 HK$ million	2004 HK$ million
0 – 3 months	**399**	624
3 – 6 months	**12**	12
Over 6 months	**48**	33
	459	669

The fair value of the Group's accounts and bills payables at 31 December 2005 was approximate to the corresponding carrying amount.

28. BANK LOANS

	2005 **HK$ million**	2004 HK$ million
Secured bank loans wholly repayable:		
Within one year	**377**	153
In the second year	**29**	49
In the third to fifth years, inclusive	**34**	49
Beyond five years	**38**	32
	478	283
Portion classified as current liabilities	**(377)**	(153)
Portion classified as non-current liabilities	**101**	130
Unsecured bank loans wholly repayable:		
Within one year	**155**	31
In the second year	**14**	17
In the third to fifth years, inclusive	**–**	13
	169	61
Portion classified as current liabilities	**(155)**	(31)
Portion classified as non-current liabilities	**14**	30

28. BANK LOANS *(continued)*

The carrying amounts of the borrowings are denominated in the following currencies:

	2005 HK$ million	2004 HK$ million
Hong Kong Dollor	**93**	97
Renminbi Yuan	**111**	52
United States Dollor	**413**	159
Great British Pound	**28**	33
Others	**2**	3
	647	344

As at the balance sheet date, 17% (2004: nil) of the Group's total borrowings were with interest rates fixed to maturity, all such borrowings will mature within one year.

The ranges of effective interest rates on the Group's borrowings at the balance sheet date were as follows:

	2005	2004
Effective interest rate:		
Fixed-rate borrowings	**5.22% to 5.69%**	Nil
Variable-rate borrowings	**5.75% to 7.75%**	1.43% to 5.84%

The Group's net increase in bank loans during the year was approximately HK$303 million, in which HK$203 million was used to finance the acquisition of ERC, the remaining balance was used as additional working capital for its business of the manufacture of consumer electronic audio and video products.

29. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK$ million	2004 HK$ million	2005 HK$ million	2004 HK$ million
Amounts payable under finance leases:				
Within one year	**–**	9	**–**	9
Less: future finance charges	**–**	–	**–**	–
Present value of lease obligations classified as current liabilities	**–**	9	**–**	9

30. CONVERTIBLE DEBENTURE

On 5 December 2005, the Company issued a principle amount of US$26 million (equivalent to HK$202 million) Convertible Debenture ("Convertible Debenture") at par value as part of the purchase consideration of ERC (note 16). The Debentureholder is entitled to require the Company to convert the whole or any part(s) of the principal amount outstanding under the Convertible Debenture into ordinary shares in the capital of the Company at any time between the date of issue of the Convertible Debenture and the settlement date on 5 December 2008 at a conversion price of HK$7.16 per ordinary share of the Company, provided that such part to be converted shall not be less than Hong Kong dollar equivalent to US$5 million and shall be in a multiple of US$1 million. If the Convertible Debenture has not been converted, it will be redeemed on 5 December 2008 at par, provided that the Company shall have the right, at any time by a 30-day prior written notice to debentureholder, to early redeem the whole or part of the outstanding principal amount of this Convertible Debenture. No interest for the period from the issue date to the day prior to the first anniversary of the issue date and 3% per annum for the period from the first anniversary of the issue date on 5 December 2005 until the maturity date on 5 December 2008.

The Convertible Debenture contain two components, conversion option and equity elements. Upon the application of HKAS 32: "Financial instruments: Disclosure and presentation," the Convertible Debenture was split between the liability and derivative instrument, on a retrospective basis. The derivative instrument element is presented in note 26.

	2005 **HK$** **million**	2004 HK$ million
Liability component at 1 January	**–**	–
Issue of Convertible Debenture	**179**	–
Liability component at 31 December	**179**	–

The fair value of the liability component of the Convertible Debenture at 31 December 2005, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date.

31. PROVISION FOR RETIREMENT AND LONG SERVICE

	2005 **HK$** **million**	2004 HK$ million
At beginning of year	**60**	93
Foreign currency adjustment	**(1)**	–
Additional provision	**2**	5
Utilisation of provision	**(3)**	(38)
At end of year	**58**	60

32. SHARE CAPITAL

	Number of ordinary shares of HK$0.10 each million	Amount HK$ million
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	1,000	100
Issued and fully paid:		
At 1 January 2004, 31 December 2004 and 31 December 2005	460	46

On 5 December 2005, the Company issued a principal amount of US$26 million Convertible Debenture due 5 December 2008 (note 30) as part of the purchase consideration of ERC (note 16). The Debentureholder is entitled to require the Company to convert the whole or any part(s) of the principal amount outstanding under the Convertible Debenture into ordinary shares in the capital of the Company. Based on the conversion price of HK$7.16 per share, a total number of 28,324,022 conversion shares will be allotted and issued upon full exercise of the conversion rights attached to the Convertible Debenture which represents approximately 6.15% of the then issued share capital of the Company and approximately 5.80% of the then enlarged issued share capital of the Company.

No conversion rights were exercised during the year ended 31 December 2005.

33. SHARE PREMIUM

	2005 HK$ million	2004 HK$ million
At 1 January (as previously reported)	**812**	812
Effects of changes in accounting policies (note 2)	**361**	–
At 31 December	**1,173**	812

34. RESERVES AND MINORITY INTERESTS

	Contributed reserve HK$ million	Investment revaluation reserve HK$ million	Capital reserve HK$ million	Exchange fluctuation reserve HK$ million	Retained profits HK$ million	Total HK$ million	Minority interests HK$ million
At 1 January 2004 –							
As previously reported	961	(2)	455	(231)	910	2,093	540
Effects of changes in accounting policies (note 2)	–	(2)	(96)	–	(50)	(148)	36
As restated	961	(4)	359	(231)	860	1,945	576
Increased investment in subsidiaries	–	–	–	–	–	–	(12)
Arising on consolidation of overseas subsidiaries	–	–	–	–	–	–	(4)
Surplus on revaluation of investments available-for-sale	–	4	–	–	–	4	–
Released on disposal of investments available-for-sale	–	13	–	–	–	13	–
Released on disposal of subsidiaries	–	–	(12)	35	–	23	(3)
Profit for the year	–	–	–	–	556	556	(41)
Dividend paid to minority interests	–	–	–	–	–	–	(4)
Distribution to shareholders	–	–	–	–	(741)	(741)	–
At 31 December 2004 and 1 January 2005	961	13	347	(196)	675	1,800	512
Effects of changes in accounting policies (note 2)	–	–	(298)	–	(59)	(357)	–
At 1 January 2005 (as restated)	961	13	49	(196)	616	1,443	512
Increased investment in subsidiaries	–	–	–	–	–	–	(29)
Deferred tax charged to equity	–	(6)	–	–	–	(6)	–
Arising on consolidation of overseas subsidiaries	–	–	–	11	–	11	(1)
Profit for the year	–	–	–	–	302	302	–
Dividend paid to minority interests	–	–	–	–	–	–	(24)
Distribution to shareholders	–	–	–	–	(143)	(143)	–
At 31 December 2005	961	7	49#	(185)	775	1,607	458

The balance of capital reserve represents property revaluation reserve.

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

Summary of the effects on disposal of subsidiaries

	2005	2004
	HK$	HK$
	million	million
Net assets disposed of:		
Property, plant and equipment	–	16
Cash and bank balances	–	2
Investments held for trading	–	9
Properties held for sale	–	17
Prepayments, deposits and other assets	–	1
Minority interests	–	(3)
	–	42
Gain on disposal of subsidiaries	–	89
	–	131
Represented by:		
Cash consideration received	–	153
Accounts, bills and other receivables	–	1
Release of reserves	–	(23)
	–	131

The subsidiaries disposed of during the year 2004 contributed HK$16 million to the Group's turnover, and utilised HK$8 million of the Group's profit from operations.

The analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2005	2004
	HK$	HK$
	million	million
Cash consideration received	–	153
Cash and bank balances of disposed subsidiaries	–	(2)
	–	151

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

b) Major non-cash transactions

(i) Purchase of subsidiary :

	2005 **HK$** **million**	2004 HK$ million
Net assets acquired :		
Investments available-for-sale	70	–
	70	–
Goodwill arising on acquisition	1	–
	71	–
Represented by :		
Discharged through accounts, bills and other receivables	71	–
	71	–

The subsidiary acquired during the year had no material effect on profit and cashflow of the Group.

(ii) During the year 2005, purchase consideration for associates of HK$202 million was satisfied by the same principle amount of Convertible Debenture issued by the Company.

(iii) The 2003 special dividend of HK$644 million was dealt with by way of a distribution in specie of marketable securities during the year 2004.

36. CONTINGENT LIABILITIES

	2005 HK$ million	2004 HK$ million
Bills discounted with recourse	–	2
Guarantee of trade finance banking facilities granted to a former associate	23	31

During 2005, the Hong Kong Inland Revenue Department ("HKIRD") initiated field audits on certain subsidiaries of the Group for the financial years from 1998 to 2005 for the purpose of ascertaining the Hong Kong tax liabilities of these subsidiaries. The Group has appointed tax advisers in Hong Kong to advise them with respect to the field audits. The HKIRD has granted the Group time to collate information requested by the HKIRD and in the meantime has issued protective assessments to which the Group has filed objections. In addition, additional assessments were issued to certain subsidiaries for which Tax Reserve Certificates in the sum of HK$11 million have been purchased by the Group. The Group's tax advisers had advised that at this preliminary stage it is premature and impractical to determine whether the field audits will result in any additional tax liabilities for the subsidiaries. In the circumstances, the Directors are of the opinion that the Group's Hong Kong tax provision is sufficient and it is not feasible and they are not able at this time to make any judgement or determination as to whether the field audit will result in any additional tax liability. Accordingly no provision for any liability that may result has been made in the financial statements.

37. COMMITMENTS

	2005 HK$ million	2004 HK$ million
(a) Capital commitments:		
Contracted for	**1**	–
Authorised, but not contracted for	**37**	–
	38	–

	2005 HK$ million	2004 HK$ million
(b) The future minimum lease payments under non-cancellable operating leases for each of the following periods:		
Land and buildings:		
Not later than one year	**12**	28
Later than one year and not later than five years	**4**	18
	16	46

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 3 years (2004: 3 years) and rentals are fixed for an average of 3 years (2004: 3 years).

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

	2005 HK$ million	2004 HK$ million
Investment properties:		
Not later than one year	**1**	2
Later than one year and not later than five years	**4**	1
	5	3

Property rental income earned during the year was HK$3 million (2004: HK$3 million). The properties are expected to generate rental yields of 4.8% (2004: 5.4%) on an ongoing basis. All of the properties held have committed tenants for the next 2 years.

(d) The group had commitments under the following foreign exchange forward contracts at fixed exchange rates for the purpose of hedging against accounts receivables and accounts payables:

	2005 HK$ million	2004 HK$ million
To sell approximately RMB524 million in 2004	**–**	493
To purchase approximately JPY558 million in 2004	**–**	42

38. BANKING AND FINANCE LEASE FACILITIES

Certain banking and finance lease facilities available to the Group were secured by assets for which the aggregate carrying values were as follows:

		2005 HK$ million	(Restated) 2004 HK$ million
(a)	Legal charges over brands and trademarks	**581**	582
(b)	Legal charges over medium-term prepaid lease and buildings in Hong Kong	**79**	81
(c)	Legal charges over investment property	**40**	45
(d)	Legal charges over plant and machinery	**–**	20
(e)	Pledge of medium-term prepaid lease and buildings outside Hong Kong	**103**	107
(f)	Pledge of marketable securities	**559**	–
(g)	Pledge of bank deposits	**9**	20
		1,371	855

39. PROVIDENT FUND SCHEMES

From 1 December 2000 onwards, all the staff of the Group in Hong Kong are offered the opportunity to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), which is introduced by the Hong Kong Special Administrative Region. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,000 per employee and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of each employee's monthly salaries up to a maximum of HK$1,000. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

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

The Group also operates various retirement benefit schemes for qualifying employees of its overseas subsidiaries, including subsidiaries in the United Kingdom, Singapore and Malaysia. The assets of the retirement benefit schemes are held separately from those of the Group, in funds under control of trustees. The Group contributes a certain percentage of the relevant payroll costs to the schemes, which contribution is matched by employees.

40. SEGMENT REPORTING

(a) Business segments

The Group comprises of:

Groups	Principal activities
(i) Branded distribution	Trading of audio & video products, licensing business and securities trading
(ii) Electronics manufacturing services	Manufacture and trading of electronic and computer products

2005	Branded distribution HK$ million	Electronics manufacturing services HK$ million	Inter-segment elimination HK$ million	Unallocated HK$ million	Consolidated HK$ million
Turnover:					
Sales of goods to external customers	3,120	2,331	–		5,451
Royalty income from external customers	386	–	–		386
Securities trading	201	–	–		201
Inter-segment sales	20	123	(143)		–
Total	3,727	2,454	(143)		6,038
Result:					
Segment results	426	(54)	–		372
Unallocated corporate expenses					(7)
					365
(Loss)/gain on disposal of property, plant and equipment	–	(1)	–	1	–
Net increase in fair value of investment properties	1	–	–	–	1
Share of loss of associates	(1)	–	–	–	(1)
Interest income					6
Interest expenses					(56)
Taxation					(13)
Profit for the year					302
Assets:					
Segment assets	5,128	3,224	(2,086)	148	6,414
Interests in associates	406	–	–	–	406
	5,534	3,224	(2,086)	148	6,820
Liabilities:					
Segment liabilities	3,624	1,779	(2,212)	345	3,536
Other information:					
Depreciation and amortisation	45	72		7	124
Capital expenditure	49	25		3	77
Allowance of doubtful debts	–	3		–	3

Royalty Income

The gross royalty income consists of license income of HK$360 million earned from an independent third party, before expenses. During the year, the Group granted the independent third party the rights to use the Group's brands and trademarks under certain product categories in certain countries for sales made in 2005.

Security Trading

Security trading includes the gain on derivative securities investments amounting to HK$201 million, before expenses, earned from an independent third party arising from an option in the shares of SEC which was exercised on 30 December 2005. The exercisable period of the option was within three years from 24 June 2005, the date of the option agreement.

40. SEGMENT REPORTING *(continued)*

(a) Business segments *(continued)*

2004 (Restated)	Branded distribution HK$ million	Electronics manufacturing services HK$ million	Inter-segment elimination HK$ million	Unallocated HK$ million	Consolidated HK$ million
Turnover:					
Sales of goods to external customers	3,319	2,762	–		6,081
Securities trading	341	–	–		341
Inter-segment sales	111	202	(313)		–
Total	3,771	2,964	(313)		6,422
Result:					
Segment results	411	52	–		463
Unallocated corporate expenses					(34)
					429
Gain on disposal of					
– property, plant and equipment	2	21	–	1	24
– investments available-for-sale	10	–	–	–	10
– properties held for sale	–	6	–	–	6
Net increase in fair value of investment properties	1	–	–	–	1
Impairment loss recognised in respect of investments available-for-sale	(4)	(8)	–	–	(12)
Gain on disposal of subsidiaries	78	11	–	–	89
Interest income					10
Interest expenses					(32)
Taxation					(10)
Profit for the year					515
Assets:					
Segment assets	5,206	3,811	(2,696)	136	6,457
Liabilities:					
Segment liabilities	3,267	1,851	(1,976)	145	3,287
Other information:					
Depreciation and amortisation	102	118		8	228
Capital expenditure	49	81		2	132
Allowance of doubtful debts	9	1		–	10

40. SEGMENT REPORTING *(continued)*

(b) Geographical segments

	Turnover		Carrying amount of segment assets (Restated)		Capital expenditure incurred during the year	
	2005	2004	**2005**	2004	**2005**	2004
	HK$ million	HK$ million	**HK$ million**	HK$ million	**HK$ million**	HK$ million
Asia	**3,784**	4,194	**4,151**	4,902	**77**	132
North America	**1,580**	1,515	**1,070**	90	**–**	–
Europe	**674**	713	**288**	150	**–**	–
Unallocated	**–**	–	**1,311**	1,315	**–**	–
	6,038	6,422	**6,820**	6,457	**77**	132

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists the subsidiaries of the Company 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 subsidiaries would result in particulars of excessive length.

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2005	2004	Principal activities
Directly held:					
Broadland Investments Limited	British Virgin Islands	US$106	**100%**	100%	Investment holding
The Grande Capetronic Holdings Limited	British Virgin Islands	US$100	**100%**	100%	Investment holding
The Grande (Nominees) Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
The Grande (Secretaries) Service Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
The Grande Group Limited	Singapore	S$5,000,000	**100%**	100%	Provision of management services
Grande N.A.K.S. Ltd	British Virgin Islands	US$10,000	**100%**	100%	Investment holding

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2005	2004	Principal activities
Directly held: *(continued)*					
The Grande Industries Limited	British Virgin Islands	US$101	**100%**	100%	Investment holding
The Grande Capital Group Limited	British Virgin Islands	US$1	**100%**	100%	Corporate finance and Investment holding
Sheer Profit Corporation	British Virgin Islands	US$1	**100%**	100%	Investment holding
Indirectly held:					
The Alpha Capital Limited	Hong Kong	HK$13,121,760	**100%**	100%	Provision of corporate finance and financial advisory services
Ross Group Plc.^	United Kingdom	GBP11,136,000	**71%**	71%	Design and manufacture of engineering projects, and the sale and distribution of electronic products
Hi-Tech Precision Products Ltd	British Virgin Islands	US$1	**100%**	100%	Investment holding
Sansui Enterprises Limited	Singapore	US$1	**100%**	100%	Trading of audio and video products
Sansui Acoustics Research Corporation	British Virgin Islands	US$2	**100%**	100%	Brands and trademarks holding
Nakamichi Designs Limited	British Virgin Islands	US$50,000	**100%**	100%	Brands and trademarks holding

^ Listed on the London Stock Exchange.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2005	2004	Principal activities
Indirectly held: *(continued)*					
Nakamichi Enterprises Limited	Singapore	US$10,001	**100%**	100%	Trading of audio and video products
Nakamichi Research (S) Pte Ltd	Singapore	S$600,000	**100%**	100%	Research and development
Nakamichi Corporation Limited	Singapore	S$2	**100%**	100%	Trading of audio and video products
Sound View International Limited	Hong Kong	HK$100,000	**100%**	100%	Trading of audio and video products
Capetronic Display Devices Holdings Limited	British Virgin Islands	US$100	**100%**	100%	Investment holding
The Capetronic Group Limited (Formerly Lafe International Holdings Limited)	Cayman Islands	HK$62,844,690	**100%**	100%	Investment holding
The Grande Properties Limited	Hong Kong	HK$10,000,000	**100%**	100%	Property holding
Akai Electric Co., Ltd.	Japan	JPY4,684,650,000	**88%**	88%	Trading of audio and video products
Phenomenon Agents Limited	British Virgin Islands	US$50,000	**88%**	88%	Brands and trademarks holding
N.A.K.S. Enterprises Limited	British Virgin Islands	US$2	**88%**	88%	Trading of audio and video products
Akai Sales Pte. Ltd.	Singapore	S$2	**88%**	88%	Trading of audio and video products
Nakamichi Corporation	Japan	JPY209,640,000	**100%**	100%	Trading of audio and video products

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2005	2004	Principal activities
Indirectly held: *(continued)*					
Tomei Kawa Electronics International Limited	British Virgin Islands	US$1	**100%**	100%	Brands and trademarks holding
Nakamichi Corporation Berhad#	Malaysia	RM55,410,180	**60%**	60%	Manufacture of consumer electronic products
Dorset International Overseas Limited	British Virgin Islands	US$1	**100%**	100%	Property holding
S&T International Distribution Limited	British Virgin Islands	US$1	**100%**	–	Investment holding
Vigers Property Management Services (Hong Kong) Limited	Hong Kong	HK$8,000,000	**100%**	100%	Property management
Vigers Realty Limited	Hong Kong	HK$10,000	**100%**	100%	Realty services
Vigers Appraisal and Consulting Limited	Hong Kong	HK$1,000,000	**100%**	100%	Assets appraisal services
Vigers Building Consultancy Limited	Hong Kong	HK$100	**100%**	100%	Building consultancy services
Lafe Technology Limited +	Bermuda	US$40,000,000	**67%**	64%	Investment holding
Lafe Computer Magnetics Limited	Hong Kong	HK$10,000,000	**67%**	64%	Marketing agent
Lafe Management Services Limited	Hong Kong	HK$20	**67%**	64%	Procurement agent
Lafe Investment Limited	Hong Kong	HK$20	**67%**	64%	Property holding
Lafe Electronic Components (Panyu) Co., Ltd.	The People's Republic of China	HK$35,000,000	**67%**	64%	Manufacture of computer magnetic heads

Listed on the Kuala Lumpur Stock Exchange.
+ Listed on the Singapore Stock Exchange.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Group 2005	2004	Principal activities
Indirectly held: *(continued)*					
Lafe Peripherals International Limited	The People's Republic of China	US$100	**67%**	64%	Trading of computer magnetic heads
Lafe (China) Corporation Limited	The People's Republic of China	US$100	**67%**	64%	Manufacture of computer magnetic heads
Tomei Technologies Ltd	British Virgin Islands	US$100	**100%**	100%	Investment holding
Tomei Asia Limited	The People's Republic of China	US$1	**100%**	100%	Manufacture of mechadecks and video products
Tomei Shoji Limited	The People's Republic of China	US$1	**100%**	100%	Manufacture of mechadecks and video products
The Grande Group (Hong Kong) Limited	Hong Kong	HK$20	**100%**	100%	Provision of administration services
Polycrown Company Limited	Hong Kong	HK$100,000	**86%**	86%	Property holding
South Sea International Press Limited	Hong Kong	HK$10,000,000	**86%**	86%	Manufacture and sale of printed products
E-Zone Group Holdings Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holding

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

42. POST BALANCE SHEET EVENTS

On 21 February 2006, the Company and Hi-Tech Precision Products Ltd ("Hi-Tech"), a wholly owned subsidiary of the Group, entered into a Subscription Agreement with DBS Bank Ltd., Hong Kong Branch ("DBS"), which was completed on 22 February 2006, whereby:

(a) DBS subscribed for, or procured the subscription of, the US$40 million Zero Coupon Guaranteed Exchangeable Bonds due 2011, exchangeable into SEC shares ("Exchangeable Bonds"), issued by Hi-Tech;

(b) DBS exercised the option to subscribe for the further US$10 million Zero Coupon Guaranteed Exchangeable Bonds issued pursuant to the Subscription Agreement.

The holder of each Exchangeable Bond will have an exchange right to exchange such Exchangeable Bond during the period beginning on and after 23 March 2006 and up to the earlier of 17:00 hours on 8 February 2011 for SEC shares at the exchange price of 40.36929 Yen per SEC shares. Assuming full exchange of the Exchangeable Bonds at the exchange price, the Exchangeable Bonds will be exchangeable into 146,683,283 SEC shares, representing 10.76% of the common stocks of SEC (subject to adjustment).

43. COMPARATIVE FIGURES

As explained in note 2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the presentation of the consolidated income statement, the consolidated balance sheet and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative figures have been restated or reclassified to conform to the current year's presentation.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 May 2006.