1. CORPORATE INFORMATION AND UPDATE

The Company was incorporated in Bermuda with limited liabilities and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The address of the principal place of business in Hong Kong of the Company is 26th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong. The Company's shares have been suspended for trading on the Stock Exchange since 24 March 2003.

The Company is an investment holding company. The principal activities of the Company's subsidiaries of which their financial statements have been consolidated at 31 December 2005 are set out in note 15 to the financial statements.

2. WINDING-UP PETITION AND APPOINTMENT OF PROVISIONAL LIQUIDATORS

As explained in the Group's 2002 annual report, the Group has been experiencing financial difficulties since about 2002. On 25 March 2003, the Bank of East Asia Limited ("BEA"), petitioned for the winding-up of the Company as the Company failed to comply with the statutory demand issued by BEA on 2 December 2002. Upon the application of the Company by summons filed on 30 April 2003, Mr. Derek K.Y. Lai and Mr. Joseph K.C. Lo of Deloitte Touche Tohmatsu were appointed as joint and several provisional liquidators of the Company by the High Court of Hong Kong Special Administrative Region on 21 June, 2003 so as to preserve the assets of the Company and to consider and review restructuring proposals or scheme of arrangement to be proposed by any interested party. On 22 July 2004, the Company was placed in its third stage of the delisting procedure under Practice Note 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). In addition, the winding up petition was further adjourned to 29 May 2006.

3. BASIS OF PREPARATION

(i) Going concern

In addition to the Company's financial difficulties as mentioned in note 2 to the financial statements, the Company announced on 10 June 2004 that, inter alia, an escrow and exclusivity agreement ("Escrow Agreement") was entered into on 4 June 2004 amongst (i) the Company, (ii) the potential investor, (iii) the provisional liquidators and (iv) the escrow agent. In the Escrow Agreement, the potential investor submitted a restructuring proposal which outlined the major terms for restructuring of the Company. Pursuant to the Escrow Agreement, it was agreed to grant the potential investor an exclusivity period for finalisation of the restructuring proposal.

On 26 September 2005, the Review Committee of the Stock Exchange has granted conditional approval for the restructuring proposal, subject to the fulfillment of certain conditions.

As set out in the Company's announcement dated 21 April 2006, the Company, the investor and the provisional liquidators entered into a restructuring agreement on 13 April 2006 for implementation of the restructuring proposal.

The principal elements of the restructuring proposal are as follows:

(a) Capital reorganisation

The Company will implement capital reorganisation, involving share consolidation, capital reduction and capital reserve reduction.

3. BASIS OF PREPARATION (Continued)

(i) Going concern (Continued)

(a) Capital reorganisation (Continued)

(i) Share consolidation

Every 100 issued shares of HK$0.01 each will be consolidated into one consolidated share of HK$1 each. Fractional consolidated shares will not be issued to the shareholders but will be aggregated and sold for the benefit of the Company.

(ii) Capital reduction

Immediately upon the share consolidation becoming effective, the Company will carry out a reduction of the nominal value of each consolidated share from HK$1 each to HK$0.01 each by cancelling the paid-up capital to the extent of HK$0.99 on each issued consolidated share. The adjusted shares will have par value of HK$0.01 each upon the capital reduction becoming effective.

(iii) Capital reserve reduction

The Company will carry out a cancellation of the entire amount standing to the credit of its share premium account, capital redemption reserve account and capital reserve account.

(b) Subscription

Pursuant to the subscription agreement with the Company's potential investor, the investor will subscribe for 2,075,000,000 subscription shares at a consideration of HK$83 million. In addition, 352,750,000 additional shares will be issued and allotted to the investor, credited as fully paid, on the basis of 17 additional shares for every 100 subscription shares subscribed by the investor.

An amount of HK$21.5 million out of the subscription proceeds will then be transferred to the scheme administrators for the creditors' settlement and the balance of the subscription proceeds will be used for working capital and investments of the Company.

(c) Creditors' schemes

It is proposed that all indebtedness of the Company will be restructured pursuant to the creditors' schemes. An amount of HK$21.5 million out of the subscription proceeds as stated in (b) above and the entire interests in the Scheme HK Group and Scheme BVI Group (comprising members of the Group which will be excluded from the restructured group but some of which are either in the process of winding up and/or the Company considers control to have been lost) as defined and detailed in the Company's announcement dated 21 April 2006, will be transferred to the scheme administrators for administration. According to the creditors' schemes, all the Company's secured debts will be satisfied by their respective collateralised property or assets and all the unsecured debts will be settled by way of a cash payment on a pro-rata basis out of the HK$21.5 million from the proceeds of the subscription as mentioned in (b) above ("Distribution Proceeds"), subject to deduction of the related petition costs and the scheme administration cost up to HK$1 million in aggregate. The Distribution Proceeds and, if any, amounts raised from realisation of assets of the Scheme HK Group and Scheme BVI Group will be used to repay the scheme creditors for the discharge and settlement in full of the indebtedness. Upon the implementation of the creditors' schemes, the Company's indebtedness will then be fully discharged and settled.

3. BASIS OF PREPARATION (Continued)

(i) Going concern (Continued)

(d) Open offer

As part of the measures to restore the 25% public float and as required under the Listing Rules and to enable the existing shareholders to participate in the restructuring proposal, an open offer of 9 offer shares for every 5 adjusted shares held by the qualifying shareholders on the record date at the price of HK$0.06 per offer share will be made.

(e) Placings

As part of the measures to restore the 25% public float and as required under the Listing Rules, 374,627,374 new shares and 156,500,000 sale shares will be placed to no less than six independent investors who are third parties independent of the Company and its connected persons and the investor at no less than HK$0.06 each by the placing agent on a best effort basis.

The completion of the above restructuring agreement is conditional upon the fulfillment of certain terms and conditions, details of which have been included in the Company's announcement dated 21 April 2006.

The Directors have prepared the financial statements on the basis that the restructuring proposal of the Company will be successfully implemented and that the Group will be able to improve its financial position and business upon completion of restructuring. As at the date of approval of the financial statements, the Directors are not aware of any circumstances or reasons that would likely affect the successful implementation of the restructuring proposal and the intention of the potential investor. In light of the foregoing, the Directors opined that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not incorporate any adjustments for possible failure of the above mentioned restructuring proposal and the continuance of the Group as a going concern.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these potential adjustments has not been incorporated in the financial statements.

(ii) Subsidiaries not consolidated

(a) The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to (a) the liquidation of certain significant subsidiaries or their immediate holding companies; or (b) the seizure of the major assets and production facilities of the major subsidiaries under the court orders as security for the unsettled claims, the Directors have not been able to obtain access to the books and records of these subsidiaries and considered that control to have been lost. The results, cash flows, assets and liabilities of these subsidiaries were not consolidated into the financial statements of the Group. Details of these subsidiaries deconsolidated from the group financial statements are set out in note 16(a).

In the opinion of the Directors, the financial statements for the year ended 31 December 2005 prepared on the aforementioned basis present more fairly the results and cash flows and state of affairs of the Group as a whole in light of liquidation or seizure of the assets of subsidiaries.

3. BASIS OF PREPARATION (Continued)

(ii) Subsidiaries not consolidated (Continued)

As explained by the Directors, since 20 July 2005, being the date on which last year's financial statements approved by the Directors, they had not received any further information concerning the progress and possible outcome of the liquidation or seizure of the assets of the aforesaid subsidiaries or their immediate holding companies. Any changes to the above status of liquidation or possible outcome from the seizure of assets of these subsidiaries or their immediate holdings companies might have a consequential effect on net liabilities of the Group and the Company as at 31 December 2005 and the results and cash flows of the Group for the year ended 31 December 2005.

(b) In addition, the Directors considered that the non-consolidation of the results, cash flows, assets and liabilities of subsidiaries as set out in note 16(b) to the financial statements would not significantly affect the results and cash flows and state of affairs of the Group for the current year as the cost of obtaining this information would exceed the value of this information to the members of the Company.

Details of subsidiaries not consolidated in the financial statements are set out in note 16(a) and 16(b) to the financial statements.

(iii) In addition to the limited financial information available concerning certain subsidiaries due to liquidation or seizure of assets of certain major subsidiaries as detailed in note 3(ii)(a) to the financial statements, the Directors have used their best endeavours to relocate all the financial and business records of the Group as most of the former accounting personnel of the Group have left. The Directors were unable to obtain sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and of the Company as at 31 December 2005.

(a) The Directors were unable to obtain sufficient documentary evidence to support other payables of approximately HK$293,807,000 included in the Group's and the Company's balance sheet as at 31 December 2005, including the liabilities under indemnities given to subsidiaries not consolidated of approximately HK$291,130,000 as at 31 December 2005. Accordingly the Directors were unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

(b) The Directors were unable to satisfy themselves as to whether the amounts of approximately HK$5,983,000 due to certain subsidiaries not consolidated and subsidiaries of the Company included in the Group's and Company's balance sheet respectively are fairly stated as at 31 December 2005.

(c) The financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Directors were unable to represent as to the completeness of recording of all transactions entered into by the Company and its subsidiaries for the years ended 31 December 2004 and 2005. Accordingly, the Directors were also unable to represent as to the correctness and completeness of identification and disclosure of directors' and employees' emoluments in note 9, property, plant and equipment in note 14, details of the retirement benefits scheme and employee benefits in note 22 and taxation in note 10 to the financial statements.

3. BASIS OF PREPARATION (Continued)

(iii) (Continued)

(d) Due to limited books and records available to the Directors, the following have not been made in the financial statements:

- Disclosures in respect of finance lease obligations as required by Hong Kong Accounting Standard ("HKAS") 17 "Leases";

- Details of analysis of pledge of assets as required by the Hong Kong Companies Ordinance;

- Segment information disclosures as required by HKAS 14 "Segment Reporting" and the Listing Rules;

- Details of deferred taxation as required by HKAS 12 "Income Taxes";

- Details of related party disclosures as required by HKAS 24 "Related Party Disclosures";

- Details of the Group's financial risk management objectives and policies as required by HKAS 32 "Financial Instruments: Disclosure and Presentation"; and

- Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and the relevant HKASs.

(e) Due to insufficient information and documentary evidence available to the Directors, they were unable to ascertain the completeness of the disclosures of the Company's share options as required by the Listing Rules.

Any adjustments arising from the matters described in above would affect the net liabilities of the Company and the Group as at 31 December 2005 and the profit and cash flows of the Group for the year then ended.

Also, as a result of the matters described in above, the comparative figures at 31 December 2004 shown in the consolidated balance sheet on page 16, the Company's balance sheet on page 17 and in the consolidated income statement and consolidated cash flow statement for the year then ended on page 15 and page 19 respectively may not be comparable with the figures for the current year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting polices adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention.

Application of new/revised Hong Kong Financial Reporting Standards

In 2005, the Group adopted the following new/revised standards of Hong Kong Financial Reporting Standards ("HKFRS") (including Hong Kong Accounting Standards ("HKAS") and interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int15	Operating leases-Incentive
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of the above HKASs did not result in substantial changes to the Group's accounting policies. In summary:

The adoption of HKAS 1 has resulted in a change of presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively.

HKAS 7, 8, 10, 12, 16, 17, 23, 27, 32, 33, 36, 38, 39, HKAS-Int 15 and HKFRS 3 had no material effect on the Group's policies.

HKAS 21 had no material effect on the Group's policy. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

In the absence of sufficient information and documentation evidence available to us regarding share options of the Company, it is not practicable to quantify the effect of the non-compliance with HKFRS 2.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Application of new/revised Hong Kong Financial Reporting Standards (Continued)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new standards and interpretations but is not yet in a position to determine whether these new statements and interpretations would have a significant impact on how its results of operations and financial position are prepared and presented.

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the balance sheet date, other than those excluded for the reasons referred to note 16 to the financial statements. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

Where the Company holds more than half of the issued share capital of a subsidiary, but does not control the composition of the board of directors or equivalent governing body, the financial statements of that subsidiary are not consolidated because it would be misleading to do so. Where the Company is in a position to exercise significant influence, such investments are dealt with as associates as appropriate. Otherwise, they are dealt with as available-for-sale investments.

Certain subsidiaries within the Group have not been consolidated from the consolidated financial statements as of 1 April 2002 or the date the Company has been unable to obtain access to any financial information of these subsidiaries because in the opinion of the Directors, the Group has lost control over these subsidiaries and it will be misleading to the users if these subsidiaries are consolidated into the Group's results, cash flows and assets and liabilities.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost, less any accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. 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. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values (if, there are any) over their estimated useful lives, as follows:

Plant and machinery	10% – $33^1/_3$%
Furniture, fixtures and equipment	20% – $33^1/_3$%

No depreciation is provided on properties under development until they are completed and put into use.

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

The gain or loss on disposal or retirement of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within bank and other borrowings in current liabilities on the balance sheet.

Leases

Finance lease (as the lessee)

Leases of assets where the Group has substantially obtained all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful lives of the assets or the lease terms.

Operating lease (both as the lessor and lessee)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating 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 bases:

– the sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

– Consultancy and management services

Revenue is recognised when the relevant consultancy and management services are rendered.

– Gain on disposal of know-how technology

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the know how technology.

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits costs

The Group operates a defined contribution retirement benefits scheme set up under the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme") for its employees who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Related parties

A party is related to the Group if:

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

- (1) controls, is controlled by, or is under common control with, the Group;
- (2) has an interest in the Group that gives its significant influence over the Group; or
- (3) has joint control over the Group;

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

(iii) the party is an associate;

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

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

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

5. TURNOVER, OTHER INCOME AND GAINS, NET

Turnover represents the net amounts received and receivable from goods sold to customers, less returns and discounts, during the year. An analysis of the Group's turnover, other income and gains, net is as follows:

	2005 HK$'000	2004 HK$'000
Turnover		
Sale of consumer electronic products	**513,610**	119,677
Other income		
Consultancy and management fees income	**42**	–
Sundry income	**97**	–
	139	–
Gains, net		
Gain on disposal of know-how technology	**2,000**	–
	2,139	–
	515,749	119,677

6. GAIN ON DECONSOLIDATION OF SUBSIDIARIES

	2005 HK$'000	2004 HK$'000
Gain on deconsolidation of subsidiaries	**–**	205,229

The above amount represented a gain on deconsolidation of the subsidiaries, Great Wall France SA which has been put into liquidation during the year ended 31 December 2004, together with its immediate holding companies, after the release of exchange fluctuation reserve of approximately HK$5,470,000.

7. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on:		
Other loans wholly repayable within five years	**300**	42

8. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after charging:

	2005	2004
	HK$'000	*HK$'000*
Staff costs:		
Wages and salaries	**2,056**	2,225
Director's remuneration (note 9)	**14**	–
Mandatory provident fund contributions	**76**	67
Staff welfare and related expenses	**6**	1
	2,152	2,293
Depreciation	**24**	3
Management fee	**350**	–
Operating leases:		
Rental of premises	**740**	803
Auditors' remuneration	**140**	90
Impairment losses for:		
Trade and other receivables	**661**	11
Amounts due from subsidiaries not consolidated	**37**	19

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2005	2004
	HK$'000	*HK$'000*
Directors		
Fees:		
Executive directors	**–**	–
Independent non-executive directors – Mr. Poon Kwok Shin	**14**	–
	14	–
Other emoluments for executive directors:		
Salaries, allowances, benefits in kind and provident fund contributions	**–**	–
	14	–

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

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

In 2005 and 2004, the five highest paid individuals did not include any directors of the Company. The emoluments of the five highest paid individuals were as follows:

	2005 *HK$'000*	2004 *HK$'000*
Salaries and benefits in kind	**1,355**	850
	1,355	850

The number of the five highest paid employees whose remuneration fell within the following bands is as follows:

	2005 *Number of employees*	2004 *Number of employees*
Nil to HK$1,000,000	**5**	5

10. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year.

	2005 *HK$'000*	2004 *HK$'000*
Hong Kong Profits Tax	**1,810**	57

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate applicable to profits of the consolidated companies as follows:

	2005 *HK$'000*	2004 *HK$'000*
Profit before taxation	**10,011**	200,507
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**1,752**	35,089
Tax effect of income not subject to taxation	**–**	(35,915)
Tax effect of expenses not deductible for taxation purposes	**6**	536
Tax effect of tax losses unrecognised for the year	**51**	358
Tax effect of temporary differences unrecognised for the year	**1**	(11)
Taxation charge	**1,810**	57

11. INDEMNIFIED LIABILITIES OF SUBSIDIARIES NOT CONSOLIDATED

The Company has given indemnities to certain bankers and vendors of its subsidiaries, which are at present under liquidation or their assets are now under seizure pursuant to the court orders for the unsettled claims, in respect of loans advanced and services rendered to those subsidiaries. The Company's obligations under these indemnities crystallised upon default payment on the part of those subsidiaries.

12. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit for the year attributable to equity holders of the Company dealt with in the financial statements of the Company was the loss of HK$292,000 (2004: the loss of HK$3,049,000).

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2005 is based on the profit for the year attributable to equity holders of the Company of HK$8,201,000 (2004: HK$200,450,000) and the weighted average number of 8,076,257,020 ordinary shares (for the year ended 31 December 2004: 8,076,257,020 ordinary shares) in issue.

No diluted earnings per share has been presented for the both years as there were no outstanding dilutive potential ordinary shares.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings outside Hong Kong *HK$'000*	**Plant and machinery** *HK$'000*	**Furniture, fixtures and equipment** *HK$'000*	**Total** *HK$'000*
Cost:				
At 1 January 2004	31,917	41,206	7,382	80,505
Additions	–	–	75	75
Subsidiaries deconsolidated	(31,917)	(41,206)	(7,382)	(80,505)
At 31 December 2004 and at 1 January 2005	–	–	75	75
Additions	–	–	19	19
At 31 December 2005	–	–	94	94
Accumulated depreciation:				
At 1 January 2004	13,789	39,017	6,585	59,391
Provided during the year	–	–	3	3
Subsidiaries deconsolidated	(13,789)	(39,017)	(6,585)	(59,391)
At 31 December 2004 and at 1 January 2005	–	–	3	3
Provided during the year	–	–	24	24
At 31 December 2005	–	–	27	27
Net book value:				
At 31 December 2005	–	–	67	67
At 31 December 2004	–	–	72	72

15. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**5,001**	5,001
Due from subsidiaries	**1,285,670**	1,285,670
	1,290,671	1,290,671
Impairment losses	**(1,290,671)**	(1,290,671)
	–	–
Due to subsidiaries	**(7,333)**	(6,870)
	(7,333)	(6,870)

The Directors had formed the opinion that the carrying amount of the Company's investments in subsidiaries of approximately HK$5,001,000 had been impaired and amounts due from these subsidiaries of approximately HK$1,285,670,000 could not be recovered and, accordingly, such impairment losses had already been recognised in the financial statements.

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the Company's subsidiaries as at 31 December 2005 which have been consolidated in these financial statements are as follows:

Name	**Nominal value of issued and fully paid ordinary share capital**	**Attributable equity interest of the Company Direct**	**Indirect**	**Principal activities**
Fortune Hand Industries Limited	USD1	100%	–	Investment holding
Great Wall Infrastructure Limited	USD1	–	100%	Dormant
Innovision Enterprises Limited	HK$1	–	100%	Sales, marketing, product design of audio-visual products

Note 1. The subsidiaries, Fortune Hand Industries Limited and Great Wall Infrastructure Limited, were incorporated in the British Virgin Islands and operated in Hong Kong.

2. The subsidiary, Innovision Enterprises Limited, was incorporated and operated in Hong Kong.

16. INTERESTS IN SUBSIDIARIES NOT CONSOLIDATED

(a) The consolidated financial statements for the year ended 31 December 2005 do not include the following subsidiaries, which (i) are either themselves or their immediate holding companies are in the course of liquidation or (ii) the major assets and production facilities of the subsidiaries have been under seizure by the Mainland China Court Orders as a security for the unsettled claims against the Group. Accordingly, the Directors of the Company were unable to have access to the books and records of these subsidiaries.

Details of these subsidiaries where the Directors considered that control to have been lost are as follows:

Name of the principal subsidiaries	**Proportion of nominal value of issued capital held by the Company indirectly**
Video Epoch Limited (*)	100%
Video Epoch Electronic (Huizhou) Limited	100%
Huizhou City Caixing Electrical Appliance Limited	75%
Huizhou City Hua Xing Packing Material Company Limited	88%
Huizhou City Hang Tung Paper Products Printing Limited	70%
Brilliant Plastic Manufacturing Limited (*)	100%
Brilliant Plastic and Mould Manufacturing (Huizhou) Limited	90%
Brilliant Plastic Industrial (Huizhou) Limited	100%
Art-Tech Speakers Manufacturing (Huizhou City) Limited	67%
Art-Tech Electronics (Huizhou) Limited	100%
Great Wall Industries Company Limited	100%
Guangzhou Rowa Electronics Company Limited	60%
Great Wall France SA (**)	100%

* private companies incorporated and operated in Hong Kong
** private company incorporated and operated in France

The above subsidiaries were incorporated and operated in the People's Republic of China, except as otherwise noted.

The consolidated financial statements do not include the results and cash flows of these subsidiaries up to the respective dates of appointment of liquidators as ordered by the courts as, in the opinion of the Directors, the financial statements prepared on the captioned basis present more fairly the results and cash flows and state of affairs of the Group as a whole in light of liquidation and seizure of the assets of subsidiaries.

16. INTERESTS IN SUBSIDIARIES NOT CONSOLIDATED (Continued)

(b) The financial statements of the Group do not consolidate the financial statements of the following subsidiaries set out below as in the opinion of the Directors, the non-consolidation of the results, cash flows and assets and liabilities of these subsidiaries would not significantly affect the results and cash flows and state of affairs of the Group for the year and the cost of obtaining this information would exceed the value of this information to the members of the Company.

Details of these principal subsidiaries not consolidated as at 31 December 2005 are as follows:

Name of the principal subsidiaries	**Proportion of nominal value of issued capital held by the Company**	
	Directly	**Indirectly**
Great Wall Capital Management Limited	–	100%
Great Wall Electronics Holding Limited	100%	–
Great Wall Strategic Holdings (BVI) Limited #	–	100%
Shenzhen Rowa Digital Network Technology Limited *	–	90%
Star Source Industries Limited	–	100%
Well Concur Limited	–	100%
Lipon Products Limited	–	100%
Great Wall Electronics Group Limited #	100%	–

\# incorporated in the British Virgin Islands
* registered and operating in the People's Republic of China as a sino-foreign equity joint venture

The above subsidiaries were incorporated and operating in Hong Kong, except as otherwise noted.

(c) The Directors have formed the opinion that the Group's interests in the above subsidiaries had been fully impaired and such impairment losses had been recognised in the financial statements in previous years.

17. TRADE AND OTHER RECEIVABLES

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**8,585**	1,080	**–**	–
Less: impairment loss of receivables	**655**	–	**–**	–
	7,930	1,080	**–**	–
Other receivables and prepayments	**5,926**	221	**–**	–
	13,856	1,301	**–**	–

17. TRADE AND OTHER RECEIVABLES (Continued)

Included in trade and other receivables are trade debtors (net of impairment losses) with the following aging analysis as of the balance sheet date:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current	**1,965**	803	**–**	–
1 to 3 months	**3,668**	179	**–**	–
4 to 6 months	**2,252**	98	**–**	–
More than 6 months	**45**	–	**–**	–
	7,930	1,080	**–**	–

The Group has recognised a loss of HK$661,000 (2004: HK$11,000) for the impairment of its trade and other receivables during the year ended 31 December 2005. The loss has been included in the income statement.

The fair value of the Group's trade and other receivables at 31 December 2005, which are mainly denominated in United States dollar, appromixates to the corresponding carrying amount.

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**2,791**	–	**–**	–
Other payables and accruals	**295,816**	297,357	**293,807**	293,978
	298,607	297,357	**293,807**	293,978

Included in other payables and accruals were the liabilities under indemnities given to subsidiaries not consolidated of approximately HK$291,130,000 (2004: HK$291,130,000).

At 31 December 2005, the aging analysis of the trade payables was as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
1 to 3 months	**2,791**	–	**–**	–

19. SHARE CAPITAL

Shares

	Company	
	2005	2004
	HK$'000	*HK$'000*
Authorised:		
25,000,000,000 ordinary shares of HK$0.01 each	**250,000**	250,000
Issued and fully paid:		
8,076,257,020 ordinary shares of HK$0.01 each	**80,763**	80,763

Share options

On 15 April 2002, the Company terminated the old share option schemes, which had been adopted in 1991 and 1997, and adopted a new share option scheme (the "New Scheme"). The exercisable period for all the options granted under the old share option schemes which entitled the holder to subscribe for the shares of the Company had been expired on 6 March 2003.

The New Scheme shall be valid and effective for a period of 10 years from 15 April 2002, after which period no further share will be granted but the provisions of the New Scheme shall remain in full force and effect in all other respects.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options which must be a business day; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares. Since the date of the adoption of New Scheme, no options have ever been granted.

20. RESERVES

	Share premium account *HK$'000*	Capital redemption reserve *HK$'000*	Contributed surplus account *HK$'000* *(Note)*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Group						
At 31 December 2003 and at 1 January 2004	792,011	9,924	145,372	5,470	(1,531,098)	(578,321)
Realised upon deconsolidation	–	–	–	(5,470)	–	(5,470)
Profit for the year	–	–	–	–	200,450	200,450
At 31 December 2004 and at 1 January 2005	792,011	9,924	145,372	–	(1,330,648)	(383,341)
Profit for the year	–	–	–	–	8,201	8,201
At 31 December 2005	792,011	9,924	145,372	–	(1,322,447)	(375,140)

	Share premium account *HK$'000*	Capital redemption reserve *HK$'000*	Contributed surplus account *HK$'000* *(Note)*	Capital reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Company						
At 31 December 2003 and at 1 January 2004	792,011	9,924	145,372	71,382	(1,397,251)	(378,562)
Loss for the year	–	–	–	–	(3,049)	(3,049)
At 31 December 2004	792,011	9,924	145,372	71,382	(1,400,300)	(381,611)
Loss for the year	–	–	–	–	(292)	(292)
At 31 December 2005	792,011	9,924	145,372	71,382	(1,400,592)	(381,903)

Note: The contributed surplus account of the Company and the Group represents the credit arising from capital reduction.

21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Deconsolidation of subsidiaries

	2005	2004
	HK$'000	*HK$'000*
Net liabilities deconsolidated:		
Property, plant and equipment	–	21,114
Inventories	–	16,889
Trade and other receivables	–	9,268
Cash and bank balances	–	753
Finance lease obligations	–	(13,627)
Trade and other payables	–	(20,388)
Amounts due to subsidiaries not consolidated	–	(213,768)
	–	(199,759)
Realisation of exchange fluctuation reserve	–	(5,470)
	–	(205,229)
Gain on deconsolidation of subsidiaries	–	205,229
	–	–
Satisfied by		
Cash consideration	–	–
Analysis of the net outflow of cash and cash equivalents in respect of deconsolidation of subsidiaries:		
Cash and bank balances	–	753

22. RETIREMENT BENEFIT SCHEME

The Group contributes to a MPF Scheme for all qualifying employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Contributions to the scheme by the Group and the employees are calculated as a percentage of employee's relevant income. The retirement benefit scheme costs charged to income statement represent contributions payable by the Group to the fund. The assets of the scheme are held separately from those of the Group in an independently administered fund.

23. POST BALANCE SHEET EVENTS

Details of post balance sheet events are summarised in notes 2 and 3 to the financial statements.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 April 2006.