Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 July 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates.

As at 31 July 2006, the Group's and the Company's current liabilities exceeded its current assets by approximately $112,138,000 and $30,921,000 respectively. The directors have evaluated all the relevant facts available to them and are of the opinion that there does not exist any material adverse conditions which would preclude the Group and the Company from renewing the current bank loans upon expiry or securing adequate banking facilities to enable the Group and the Company to meet their financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material judgments in the next year are discussed in note 34.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries and controlled enterprises

A subsidiary is an enterprise controlled by the Company. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)).

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of investment under the entity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(h)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the income statement.

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

(f) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(h)):

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(g));

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(g)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;
- Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 10 years from the date of completion, and the unexpired terms of the leases; and
- Plant and machinery 5 – 10 years
- Office equipment, furniture and fixtures 3 – 5 years
- Motor vehicles 5 years

No depreciation is provided in respect of construction in progress.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Leased assets

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases except for that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the assets, the life of the assets, as set out in note 1(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(h). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets (continued)

(iii) Operating lease charges

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

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

(h) Impairment of assets

(i) Impairment of receivables

Investments in current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries and interests in associates; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories

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

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

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

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

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(h)).

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

(m) Cash and cash equivalents

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

Contributions to Mandatory Provident Funds (the "MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and other retirement benefit schemes, are recognised as an expense in the income statement as and when incurred.

Annual contributions to the pension scheme operated by the government in the People's Republic of China ("PRC") are recognised as an expense in the consolidated income statement as and when incurred.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model with modification, taking into account the terms and conditions upon which the share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the share options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

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

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

(q) Revenue recognition

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

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Revenue recognition (continued)

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a subsidiary outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that subsidiary is included in the calculation of the profit or loss on disposal.

(s) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(u) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet and other significant related disclosure items as previously reported for the year ended 31 July 2005. The effects of the changes in accounting policies on the balances at 1 August 2004 and 2005 are disclosed in note 28.

(i) Effect on the consolidated financial statements

Consolidated income statement for the year ended 31 July 2005

	2005 (as previously reported)	Effect of new policy (increase/(decrease) in profit for the year)				2005 (as restated)
		HKFRS 2 (note 2(e))	HKAS 1 (note 2(g))	HKAS 17 (note 2(c))	Sub-total	
	$'000	$'000	$'000	$'000	$'000	$'000
Turnover	1,226,909	–	–	–	–	1,226,909
Cost of sales	(1,040,196)	–	–	2,254	2,254	(1,037,942)
Gross profit	186,713	–	–	2,254	2,254	188,967
Other net losses	(8,995)	–	–	–	–	(8,995)
Distribution costs	(26,147)	–	–	–	–	(26,147)
Administrative expenses	(73,893)	(689)	–	–	(689)	(74,582)
Other operating expenses	(318)	–	–	–	–	(318)
Profit from operations	77,360	(689)	–	2,254	1,565	78,925
Finance costs	(45,611)	–	–	–	–	(45,611)
Share of losses of associates	(3,296)	–	–	–	–	(3,296)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Restatement of prior periods and opening balances (continued)

(i) Effect on the consolidated financial statements (continued)

Consolidated income statement for the year ended 31 July 2005 (continued)

	2005 (as previously reported)	Effect of new policy (increase/(decrease) in profit for the year)				2005 (as restated)
		HKFRS 2 (note 2(e))	HKAS 1 (note 2(g))	HKAS 17 (note 2(c))	Sub-total	
	$'000	$'000	$'000	$'000	$'000	$'000
Profit before taxation	28,453	(689)	–	2,254	1,565	30,018
Income tax	(3,342)	–	–	(740)	(740)	(4,082)
	25,111	(689)	–	1,514	825	25,936
Minority interests	(1,349)	–	1,349	–	1,349	–
Profit for the year	23,762	(689)	1,349	1,514	2,174	25,936
Attributable to:						
Equity shareholders of the Company	23,762	(689)	–	1,514	825	24,587
Minority interests	–	–	1,349	–	1,349	1,349
Profit for the year	23,762	(689)	1,349	1,514	2,174	25,936
Earnings per share						
Basic (cents)	2.90	(0.08)	–	0.18	0.10	3.00
Diluted (cents)	2.90	(0.08)	–	0.18	0.10	3.00
Other significant disclosure items:						
Staff costs	128,566	689	–	–	689	129,255
Depreciation	80,712	–	–	(2,665)	(2,665)	78,047
Amortisation of interests in leasehold land held for own use under operating leases	–	–	–	411	411	411

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Restatement of prior periods and opening balances (continued)

(i) Effect on the consolidated financial statements (continued)

Consolidated balance sheet at 31 July 2005

	2005 (as previously reported)	Effect of new policy (increase/(decrease) in net assets)				2005 (as restated)
		HKFRS 2 (note 2(e))	HKAS 1 (note 2(g))	HKAS 17 (note 2(c))	Sub-total	
	$'000	$'000	$'000	$'000	$'000	$'000
Non-current assets						
Fixed assets						
– Property, plant and equipment	877,870	–	–	(149,925)	(149,925)	727,945
– Interests in leasehold land held for own use under operating leases	–	–	–	19,420	19,420	19,420
	877,870	–	–	(130,505)	(130,505)	747,365
Goodwill	2,172	–	–	–	–	2,172
Interests in associates	9,528	–	–	–	–	9,528
	889,570	–	–	(130,505)	(130,505)	759,065
Current assets						
Inventories	180,812	–	–	–	–	180,812
Trade and other receivables	260,176	–	–	–	–	260,176
Deposits with banks	156,703	–	–	–	–	156,703
Cash and cash equivalents	109,631	–	–	–	–	109,631
	707,322	–	–	–	–	707,322
Current liabilities						
Trade and other payables	302,683	–	–	–	–	302,683
Interest-bearing borrowings	501,881	–	–	–	–	501,881
Obligations under finance leases	12,063	–	–	–	–	12,063
Loan from a substantial shareholder	4,892	–	–	–	–	4,892
Current taxation	82	–	–	–	–	82
	821,601	–	–	–	–	821,601
Net current liabilities	(114,279)	–	–	–	–	(114,279)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Restatement of prior periods and opening balances (continued)

(i) Effect on the consolidated financial statements (continued)

Consolidated balance sheet at 31 July 2005 (continued)

	2005 (as previously reported)	Effect of new policy (increase/(decrease) in net assets)				2005 (as restated)
		HKFRS 2 (note 2(e))	HKAS 1 (note 2(g))	HKAS 17 (note 2(c))	Sub-total	
	$'000	$'000	$'000	$'000	$'000	$'000
Total assets less current liabilities	775,291	–	–	(130,505)	(130,505)	644,786
Non-current liabilities						
Interest-bearing borrowings	277,005	–	–	–	–	277,005
Obligations under finance leases	8,629	–	–	–	–	8,629
Loan from a substantial shareholder	29,348	–	–	–	–	29,348
Deferred tax liabilities	19,244	–	–	(19,244)	(19,244)	–
	334,226	–	–	(19,244)	(19,244)	314,982
Minority interests	5,513	–	(5,513)	–	(5,513)	–
NET ASSETS	435,552	–	5,513	(111,261)	(105,748)	329,804
CAPITAL AND RESERVES						
Share capital	41,000	–	–	–	–	41,000
Employee share-based capital reserve	–	689	–	–	689	689
Land and buildings revaluation reserve	108,666	–	–	(108,666)	(108,666)	–
Retained profits	161,187	(689)	–	(1,082)	(1,771)	159,416
Foreign exchange translation reserve	11,089	–	–	(1,513)	(1,513)	9,576
Other reserves	113,610	–	–	–	–	113,610
	435,552	–	–	(111,261)	(111,261)	324,291
Attributable to minority interests	–	–	5,513	–	5,513	5,513
	435,552	–	5,513	(111,261)	(105,748)	329,804

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Restatement of prior periods and opening balances (continued)

(ii) Effect on the Company's balance sheet

Balance sheet at 31 July 2005

	2005 (as previously reported)	Effect of new policy (increase/(decrease) in net assets)			2005 (as restated)
		HKFRS 2 (note 2(e))	HKAS 17 (note 2(c))	Sub-total	
	$'000	$'000	$'000	$'000	$'000
Non-current assets					
Property, plant and equipment	9,566	–	(2,760)	(2,760)	6,806
Investments in subsidiaries	258,122	–	–	–	258,122
	267,688	–	(2,760)	(2,760)	264,928
Current assets					
Other receivables	50,737	–	–	–	50,737
Cash and cash equivalents	371	–	–	–	371
	51,108	–	–	–	51,108
Current liabilities					
Other payables	79,476	–	–	–	79,476
Interest-bearing borrowings	900	–	–	–	900
	80,376	–	–	–	80,376
Net current liabilities	(29,268)	–	–	–	(29,268)
Total assets less current liabilities	238,420	–	(2,760)	(2,760)	235,660
Non-current liabilities					
Interest-bearing borrowings	450	–	–	–	450
NET ASSETS	237,970	–	(2,760)	(2,760)	235,210
CAPITAL AND RESERVES					
Share capital	41,000	–	–	–	41,000
Employee share-based capital reserve	–	689	–	689	689
Land and buildings revaluation reserve	2,760	–	(2,760)	(2,760)	–
Retained profits	(30,367)	(689)	–	(689)	(31,056)
Other reserves	224,577	–	–	–	224,577
	237,970	–	(2,760)	(2,760)	235,210

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet and other significant related disclosure items for the year ended 31 July 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) Effect on the consolidated financial statements

Estimated effect on the consolidated income statement for the year ended 31 July 2006:

	Estimated effect of new policy (increase/(decrease) in profit for the year)			
	HKFRS 2 (note 2(e)) $'000	HKFRS 3 (note 2(f)) $'000	HKAS 17 (note 2(c)) $'000	Total $'000
Cost of sales	–	–	2,254	2,254
Gross profit	–	–	2,254	2,254
Administrative expenses	(1,516)	274	–	(1,242)
Profit before taxation	(1,516)	274	2,254	1,012
Income tax	–	–	(740)	(740)
Profit for the year	(1,516)	274	1,514	272
Attributable to:				
Equity shareholders of the Company	(1,516)	274	1,514	272
Minority interests	–	–	–	–
Profit for the year	(1,516)	274	1,514	272
Earnings per share				
Basic (cents)	(0.18)	0.03	0.18	0.03
Diluted (cents)	(0.18)	0.03	0.18	0.03
Other significant disclosure items:				
Staff costs	1,516	–	–	1,516
Depreciation	–	–	(2,624)	(2,624)
Amortisation of goodwill	–	(274)	–	(274)
Amortisation of interests in leasehold land held for own use under operating leases	–	–	370	370

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Estimated effect of changes in accounting policies on the current period (continued)

(i) Effect on the consolidated financial statements (continued)

Estimated effect on the consolidated balance sheet at 31 July 2006:

	Estimated effect of new policy (increase/(decrease) in net assets)				
	HKFRS 2 (note 2(e)) $'000	HKFRS 3 (note 2(f)) $'000	HKAS 17 (note 2(c)) $'000	HKAS 39 (note 2(d)) $'000	Total $'000
Non-current assets					
Fixed assets					
– Property, plant and equipment	–	–	(147,301)	–	(147,301)
– Interests in leasehold land held for own use under operating leases	–	–	19,050	–	19,050
Goodwill	–	274	–	–	274
	–	274	(128,251)	–	(127,977)
Current assets					
Bills receivable	–	–	–	22,676	22,676
Current liabilities					
Interest-bearing borrowings	–	–	–	(22,676)	(22,676)
Net current liabilities	–	–	–	–	–
Total assets less current liabilities	–	274	(128,251)	–	(127,977)
Non-current liabilities					
Deferred tax liabilities	–	–	(18,504)	–	(18,504)
NET ASSETS	–	274	(109,747)	–	(109,473)
CAPITAL AND RESERVES					
Share premium	859	–	–	–	859
Employee share-based capital reserve	565	–	–	–	565
Land and buildings revaluation reserve	–	–	(106,840)	–	(106,840)
Retained profits	(1,424)	274	(1,394)	–	(2,544)
Foreign exchange translation reserve	–	–	(1,513)	–	(1,513)
	–	274	(109,747)	–	(109,473)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Estimated effect of changes in accounting policies on the current period (continued)

(i) Effect on the consolidated financial statements (continued)

Estimated effect on amounts recognised as capital transactions with owners of the Group for the year ended 31 July 2006:

	Effect of new policy (increase/(decrease)) HKFRS 2 (note 2(e)) $'000
Attributable to equity shareholders of the Company	1,516
Minority interests	–
Total equity	1,516

(ii) Effect on the Company's balance sheet

Estimated effect on the balance sheet at 31 July 2006:

	Estimated effect of new policy (increase/(decrease) in net assets)		
	HKFRS 2 (note 2(e)) $'000	HKAS 17 (note 2(c)) $'000	Total $'000
Non-current assets			
Fixed assets			
– Property, plant and equipment	–	(2,705)	(2,705)
NET ASSETS	–	(2,705)	(2,705)
CAPITAL AND RESERVES			
Share premium	859	–	859
Employee share-based capital reserve	565	–	565
Land and buildings revaluation reserve	–	(2,760)	(2,760)
Retained profits	(1,424)	55	(1,369)
	–	(2,705)	(2,705)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Estimated effect of changes in accounting policies on the current period (continued)

(ii) Effect on the Company's balance sheet (continued)

Estimated effect on amounts recognised as capital transactions with owners of the Company for the year ended 31 July 2006:

	Effect of new policy (increase/(decrease) HKFRS 2 (note 2(e)) $'000
Attributable to equity shareholders of the Company	1,516

(c) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movement of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from 1 August 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 1(f) and 1(g). Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1 August 2005 the buildings are also stated at cost less accumulated depreciation and accumulated impairment losses, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

The above new accounting policy have been adopted retrospectively. The adjustments, including reversal of related deferred tax liabilities, for each financial statement line item affected for 31 July 2005 and 2006 are set out in notes 2(a) and 2(b).

(d) Financial instruments (HKAS 39, Recognition and measurement of financial instruments)

In prior years, bills receivable with recourse were derecognised in the financial statements upon settlement or when discounted with financial institutions.

Upon the adoption of HKAS 39 with effect from 1 August 2005, discounted bills receivable should not be derecognised where the Group retains substantially all risks and rewards relating thereto and the corresponding proceeds should be recognised as a liability.

The new accounting policy has been applied prospectively in accordance with the transitional arrangement under HKAS 39. As a result, comparative amounts have not been restated.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(e) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the share options, the nominal amount of share capital and share premium were credited only to the extent of the share option's exercise price receivable.

With effect from 1 August 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 1(n)(ii).

The new accounting policy has been applied retrospectively with comparatives restated.

The adjustments for each financial statement line affected for the years ended 31 July 2005 and 2006 are set out in notes 2(a) and 2(b). No adjustments to the opening balances as at 1 August 2004 are required as no share options existed at that time.

Details of the employee share option scheme are set out in note 25.

(f) Amortisation of positive goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior years, positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1 August 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Further details of these new policies are set out in note 1(e).

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for each consolidated financial statement line affected for the year ended 31 July 2006 are set out in note 2(b).

(g) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to the equity shareholders of the Company.

With effect from 1 August 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 1(c). These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(h) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, the definition of related parties as disclosed in note 1(t) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, *Related party disclosures*, still been in effect.

3 TURNOVER

The principal activities of the Group are the manufacturing and sales of plastic moulded products and parts, assembling of electronic products and mould design and fabrication.

Turnover represents the aggregate invoiced value of goods sold. Turnover excludes value added or other sales taxes and is after deduction of any trade discounts.

An analysis of turnover derived from the principal activities of the Group is as follows:

	2006 $'000	2005 $'000
Breakdown of turnover by principal activities		
Plastic injection and moulding	1,114,554	1,005,676
Assembling of electronic products	177,191	161,069
Mould design and fabrication	110,515	60,164
	1,402,260	1,226,909

4 OTHER NET INCOME/(LOSSES)

	2006 $'000	2005 $'000
Net loss on disposal of fixed assets	(4,468)	(14,364)
Interest income	6,105	3,048
Rental receivable from operating leases	9,004	1,854
Others	(702)	467
	9,939	(8,995)

5 STAFF COSTS

	2006 $'000	2005 (restated) $'000
Salaries, wages and allowances	**184,422**	121,769
Contribution to retirement benefit schemes	**10,367**	6,797
Equity settled share-based payment expenses (note 25)	**1,516**	689
	196,305	129,255

Staff costs include directors' remuneration totalling $23,037,000 (2005: (restated) $16,831,000) (note 8).

A subsidiary of the Company has entered into processing arrangements with certain independent third parties (the "Providers") in respect of certain production facilities in Shenzhen, the PRC. Pursuant to the relevant processing agreements, labour required for production is provided by the Providers, who are responsible for the participation in retirement benefit schemes pursuant to the relevant rules and regulations in the PRC. In return, a processing charge calculated based on the number of staff engaged in the production is payable to the Providers. The Group has no obligations to pay any retirement benefits of existing and former staff provided by the Providers.

Other subsidiaries of the Company operating in the PRC participate in a government pension scheme whereby the subsidiaries are required to pay annual contributions at rates from 8% to 25% of the standard wages determined by the relevant authorities in the PRC. Under the scheme, retirement benefits of existing and former employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

Contributions to MPF are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The Group and its employees in Hong Kong make monthly mandatory contributions to the Mandatory Provident Fund Scheme at 5% of the employees' relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. The contributions from employees and employer are subject to a cap of monthly relevant income of $20,000.

The Group did not operate nor participate in any other scheme for retirement benefits provided to the Group's employees during the year.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2006 $'000	2005 $'000
(a) Finance costs:		
Interest on bank advances repayable within 5 years	**47,786**	35,978
Interest on bank advances repayable over 5 years	**–**	830
Interest on loan from a substantial shareholder	**1,605**	1,905
Bills discount expenses	**–**	885
Finance charges on obligations under finance leases	**1,168**	1,731
Total borrowing costs	**50,559**	41,329
Less: Borrowing costs capitalised as construction in progress*	**(1,145)**	(998)
	49,414	40,331
Net exchange losses	**964**	3,132
Bank charges	**3,075**	2,148
	53,453	45,611

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 6.0% (2005: 5.1%) per annum for construction in progress.

	2006 $'000	2005 (restated) $'000
(b) Other items:		
Cost of inventories # (note 18(b))	**1,195,200**	1,037,942
Auditors' remuneration		
– audit services	**1,788**	1,583
– other services	**484**	404
Impairment losses for doubtful debts charged	**3,629**	2,107
Processing fees #	**17,633**	14,003
Amortisation of interests in leasehold land held for own use under operating leases	**370**	411
Depreciation #		
– other assets	**81,418**	73,633
– assets held under finance leases	**6,340**	4,414
Operating lease charges in respect of properties #		
– factory and hostel rentals	**10,262**	9,916
Amortisation of goodwill	**–**	274
Loss on disposal of fixed assets	**4,468**	14,364
Compensation paid for early termination of leases	**323**	318

Cost of inventories includes $219,205,000 (2005: $191,238,000) relating to staff costs, depreciation, processing fees and operating lease charges which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006	2005 (restated)
	$'000	$'000
Current tax – PRC		
Tax for the year	6,291	4,082

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for the years ended 31 July 2006 and 2005.

Taxable income for the subsidiaries of the Company in the PRC is subject to PRC income tax. Subsidiaries of the Company in the PRC which are foreign investment enterprises that are granted certain tax relief, under which they are entitled to PRC income tax exemption for two years commencing from the first profit making year and to a 50% relief from PRC income tax for the following three years. After the expiry of the tax relief period, the subsidiaries' profits are subject to PRC income tax at the rate of 15%.

Subsidiaries of the Company in the PRC were either entitled to income tax exemption or sustained losses for taxation purpose for the year ended 31 July 2006 except for the following two subsidiaries of the Company in the PRC which are subject to standard or preferential income tax rates as follows:

Name of subsidiary	Period	Income tax rate
V.S. Technology Industry Park (Zhuhai) Co., Ltd. ("VS Zhuhai")	1 August 2005 to 31 December 2005	7.5%
	1 January 2006 to 31 July 2006	15.0%
Haivs Industry (Qingdao) Co., Ltd.	1 August 2005 to 31 July 2006	7.5%

Pursuant to relevant PRC tax regulations, VS Zhuhai is entitled to a tax credit relating to purchase of equipment domestically produced in the PRC. The tax credit which amounted to $968,000 is recognised as a reduction of income tax expenses upon approval from the relevant tax authorities.

A subsidiary of the Company has entered into processing arrangements with certain Providers in respect of certain production facilities in Shenzhen, the PRC. Pursuant to the processing agreements, the Providers bear any PRC tax in respect of the Group's relevant production facilities in Shenzhen, the PRC.

Pursuant to the laws, rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2006	2005 (restated)
	$'000	$'000
Profit before tax	**51,731**	30,018
Notional tax on profit before tax, calculated at the rates applicable to profits in the jurisdictions concerned	**7,760**	4,503
Tax effect of non-deductible expenses	**1,550**	1,671
Tax effect of unused tax losses not recognised	**3,899**	485
Tax effect of tax relief granted	**(6,918)**	(2,577)
Actual tax expense	**6,291**	4,082

8 DIRECTORS' REMUNERATION

The remuneration of every director for the year ended 31 July 2006 is set out below:

	Fee	Salary	Discretionary bonus (note (i))	Share-based payments (note (ii))	Retirement scheme contributions	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors						
Beh Kim Ling	–	6,000	3,600	256	–	9,856
Gan Sem Yam	–	4,200	3,000	256	–	7,456
Gan Chu Cheng	–	3,000	1,200	256	–	4,456
Zhang Pei Yu	–	396	150	78	–	624
	–	13,596	7,950	846	–	22,392
Non-executive director						
Gan Tiong Sia	180	–	–	63	–	243
Independent non-executive directors						
Diong Tai Pew	120	–	–	16	–	136
Cheung Kwan Hung, Anthony	120	–	–	16	–	136
Tang Sim Cheow	120	–	–	10	–	130
	360	–	–	42	–	402
	540	13,596	7,950	951	–	23,037

8 DIRECTORS' REMUNERATION (CONTINUED)

The remuneration of every director for the year ended 31 July 2005 is set out below:

	Fee $'000	Salary $'000	Discretionary bonus (note (i)) $'000	Share-based payments (note (ii)) $'000	Retirement scheme contributions $'000	Total (restated) $'000
Executive directors						
Beh Kim Ling	–	6,000	1,125	116	–	7,241
Gan Sem Yam	–	4,200	675	116	–	4,991
Gan Chu Cheng	–	3,000	338	116	–	3,454
Zhang Pei Yu	–	396	112	36	–	544
	–	13,596	2,250	384	–	16,230
Non-executive director						
Gan Tiong Sia	180	–	–	28	–	208
Independent non-executive directors						
Diong Tai Pew	125	–	–	7	–	132
Cheung Kwan Hung, Anthony	150	–	–	7	–	157
Tang Sim Cheow	100	–	–	4	–	104
	375	–	–	18	–	393
	555	13,596	2,250	430	–	16,831

Notes:

(i) Each of the executive directors is entitled, on completion of every twelve months of service, to a management bonus in respect of each financial year of the Company for an amount to be determined by the board of directors which is subject to a cap amount.

(ii) These represents the estimated value of share options granted to the directors under the Company's share option scheme as described in note 25. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(n)(ii).

8 DIRECTORS' REMUNERATION (CONTINUED)

Share options granted and the corresponding exercisable portion in respect of each director are set out below:

	Granted number	Exercisable number as at 1 August 2005	Options vested during the year	Options exercised during the year	**Exercisable number as at 31 July 2006**
Executive directors					
Beh Kim Ling	8,200,000	2,050,000	4,100,000	–	**6,150,000**
Gan Sem Yam	8,200,000	2,050,000	4,100,000	–	**6,150,000**
Gan Chu Cheng	8,200,000	2,050,000	4,100,000	(6,150,000)	**–**
Zhang Pei Yu	2,500,000	625,000	1,250,000	(1,875,000)	**–**
	27,100,000	6,775,000	13,550,000	(8,025,000)	**12,300,000**
Non-executive director					
Gan Tiong Sia	2,000,000	500,000	1,000,000	–	**1,500,000**
Independent non-executive directors					
Diong Tai Pew	500,000	125,000	250,000	–	**375,000**
Cheung Kwan Hung, Anthony	500,000	125,000	250,000	–	**375,000**
Tang Sim Cheow	300,000	75,000	150,000	–	**225,000**
	1,300,000	325,000	650,000	–	**975,000**
	30,400,000	7,600,000	15,200,000	(8,025,000)	**14,775,000**

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2005: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2005: two) individuals are as follows:

	2006 **$'000**	2005 (restated) $'000
Salaries and other emoluments	**1,317**	1,135
Retirement scheme contributions	**–**	–
Discretionary bonuses	**215**	210
Share-based payments	**39**	56
	1,571	1,401

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

The emoluments of the two (2005: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2006	2005
$Nil - $1,000,000	**2**	2

Under the Company's share option scheme described in note 25, the two individuals of the Company with the highest emoluments were granted an aggregate of 1,296,000 share options to subscribe for shares in the Company during the year. 972,000 of the share options granted were exercised during the year ended 31 July 2006.

There were no amounts paid during the year ended 31 July 2006 and 2005 to the Directors or any of the five highest paid individuals as inducement to join or upon joining the Company or the Group or as compensation for loss of office.

10 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $251,000 (2005 (restated): Loss $21,058,000) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2006 $'000	2005 $'000
Final dividend proposed after the balance sheet date of 0.8 cents (2005: 0.8 cents) per share	**6,714**	6,560

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006 $'000	2005 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 0.8 cents (2005: 0.5 cents) per share	**6,606**	4,100

During the period from the date of proposal of the final dividend for the year ended 31 July 2005 to the date of approval of such final dividend, 5,774,000 share options were exercised. Accordingly, a final dividend amounting to $6,606,000 was approved and paid during the year.

(Expressed in Hong Kong dollars unless otherwise indicated)

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $45,323,000 (2005 (restated): $24,587,000) and the weighted average number of 827,806,022 shares (2005: 820,000,000 shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2006 Number of shares	2005 Number of shares
Issued ordinary shares at 1 August	**820,000,000**	820,000,000
Effect of share options exercised (note 25)	**7,806,022**	–
Weighted average number of ordinary shares at 31 July	**827,806,022**	820,000,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of $45,323,000 (2005 (restated): $24,587,000) and the weighted average number of ordinary shares of 831,323,321 shares (2005: 820,107,903 shares), calculated as follows:

(i) Weighted average number of ordinary shares (diluted)

	2006 Number of shares	2005 Number of shares
Weighted average number of ordinary shares at 31 July	**827,806,022**	820,000,000
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 25)	**3,517,299**	107,903
Weighted average number of ordinary shares (diluted) at 31 July	**831,323,321**	820,107,903

13 SEGMENT REPORTING

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

(a) Business segments

The Group comprises the following main business segments:

Plastic injection and moulding	:	manufacture and sale of plastic moulded products and parts
Assembling of electronic products	:	assembling and sale of electronic products, including processing fee generated from assembling of electronic products
Mould design and fabrication	:	manufacture and sale of plastic injection moulds

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2006	2005 (restated)	**2006**	2005 (restated)	**2006**	2005 (restated)	**2006**	2005 (restated)
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Turnover from external customers	**1,114,554**	1,005,676	**177,191**	161,069	**110,515**	60,164	**1,402,260**	1,226,909
Segment result	**129,298**	119,819	**1,571**	12,830	**31,588**	15,880	**162,457**	148,529
Unallocated operating income and expenses							**(51,827)**	(69,604)
Profit from operations							**110,630**	78,925
Finance costs							**(53,453)**	(45,611)
Share of losses of associates							**(5,446)**	(3,296)
Income tax							**(6,291)**	(4,082)
Profit for the year							**45,440**	25,936
Depreciation and amortisation for the year	**54,554**	45,292	**18,187**	13,246	**9,532**	8,910	**82,273**	67,448
Unallocated depreciation and amortisation							**5,855**	11,284
							88,128	78,732
Significant non-cash items (other than depreciation and amortisation)	**2,891**	3,173	**(182)**	474	**90**	105	**2,799**	3,752
Unallocated expenses							**–**	616
							2,799	4,368

13 SEGMENT REPORTING (CONTINUED)

(a) Business segments (continued)

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2006 $'000	2005 (restated) $'000	2006 $'000	2005 (restated) $'000	2006 $'000	2005 (restated) $'000	2006 $'000	2005 (restated) $'000
Segment assets	722,525	669,179	208,817	192,455	116,579	122,016	1,047,921	983,650
Interests in associates	6,975	–	–	–	–	–	6,975	–
Unallocated assets							392,774	482,737
Total assets							1,447,670	1,466,387
Segment liabilities	204,109	230,929	29,314	39,563	29,947	28,284	263,370	298,776
Unallocated liabilities							804,776	837,807
Total liabilities							1,068,146	1,136,583
Capital expenditure incurred during the year	45,098	51,051	20,773	6,937	2,102	1,743	67,973	59,731
Unallocated capital expenditure							18,868	23,093
							86,841	82,824

(b) Geographical segments

The Group's business participates in six (2005: six) major economic environments.

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

Turnover from external customers is analysed as follows:

	2006 $'000	2005 $'000
PRC (other than Taiwan and Hong Kong)	857,286	766,483
Hong Kong	327,985	297,699
Northern Asia	75,980	46,143
Europe	49,596	32,565
South East Asia	46,948	58,361
United States of America	44,320	24,763
Others	145	895
	1,402,260	1,226,909

14 FIXED ASSETS

(a) The Group

	Buildings held for own use $'000	Leasehold improvements $'000	Plant and machinery $'000	Office equipment, furniture and fixtures $'000	Motor vehicles $'000	Construction in progress $'000	Sub-total $'000	Interests in leasehold land held for own use under operating leases $'000	Total $'000
Cost:									
At 1 August 2004 (restated)	220,190	25,978	652,187	33,625	20,564	17,300	969,844	12,830	982,674
Exchange adjustments	5,238	144	9,739	435	315	–	15,871	1,513	17,384
Transfer	21,636	–	1,867	758	–	(24,261)	–	–	–
Additions	2,456	692	48,873	1,751	600	21,721	76,093	6,731	82,824
Disposals	(7,995)	(10,277)	(57,578)	(7,539)	(1,063)	–	(84,452)	–	(84,452)
At 31 July 2005 (restated)	241,525	16,537	655,088	29,030	20,416	14,760	977,356	21,074	998,430
At 1 August 2005 (restated)	241,525	16,537	655,088	29,030	20,416	14,760	977,356	21,074	998,430
Exchange adjustments	2,792	160	7,313	329	229	–	10,823	285	11,108
Transfer	3,446	8,283	4,622	202	–	(16,553)	–	–	–
Additions	270	768	52,520	1,664	984	27,132	83,338	3,503	86,841
Disposals	(13,726)	–	(3,723)	(4,912)	(822)	–	(23,183)	–	(23,183)
At 31 July 2006	234,307	25,748	715,820	26,313	20,807	25,339	1,048,334	24,862	1,073,196
Accumulated depreciation and amortisation:									
At 1 August 2004 (restated)	9,899	11,628	160,540	13,852	10,330	–	206,249	1,237	207,486
Exchange adjustments	193	49	1,866	187	156	–	2,451	6	2,457
Charge for the year	5,292	1,739	63,668	4,847	2,501	–	78,047	411	78,458
Written back on disposals	(726)	(6,771)	(23,385)	(5,445)	(1,009)	–	(37,336)	–	(37,336)
At 31 July 2005 (restated)	14,658	6,645	202,689	13,441	11,978	–	249,411	1,654	251,065
At 1 August 2005 (restated)	14,658	6,645	202,689	13,441	11,978	–	249,411	1,654	251,065
Exchange adjustments	222	30	2,004	162	136	–	2,554	22	2,576
Charge for the year	4,620	2,008	74,512	3,555	3,063	–	87,758	370	88,128
Written back on disposals	–	–	(12,324)	(1,225)	(658)	–	(14,207)	–	(14,207)
At 31 July 2006	19,500	8,683	266,881	15,933	14,519	–	325,516	2,046	327,562
Net book value:									
At 31 July 2006	214,807	17,065	448,939	10,380	6,288	25,339	722,818	22,816	745,634
At 31 July 2005 (restated)	226,867	9,892	452,399	15,589	8,438	14,760	727,945	19,420	747,365

14 FIXED ASSETS (CONTINUED)

(b) The Company

	Buildings held for own use $'000	Office equipment, furniture and fixtures $'000	Total $'000
Cost:			
At 1 August 2004 and 31 July 2005 (restated)	7,247	193	7,440
At 1 August 2005 (restated)	7,247	193	7,440
Additions	–	7	7
At 31 July 2006	7,247	200	7,447
Accumulated depreciation:			
At 1 August 2004 (restated)	362	88	450
Charge for the year	145	39	184
At 31 July 2005 (restated)	507	127	634
At 1 August 2005 (restated)	507	127	634
Charge for the year	145	40	185
At 31 July 2006	652	167	819
Net book value:			
At 31 July 2006	6,595	33	6,628
At 31 July 2005 (restated)	6,740	66	6,806

14 FIXED ASSETS (CONTINUED)

(c) An analysis of net book value of properties is as follows:

	The Group		The Company	
	2006	2005 (restated)	**2006**	2005 (restated)
	$'000	$'000	**$'000**	$'000
In Hong Kong				
– Medium-term leases	**6,595**	6,740	**6,595**	6,740
Outside Hong Kong				
– Medium-term leases	**231,028**	239,547	**–**	–
	237,623	246,287	**6,595**	6,740
Representing:				
Buildings held for own use	**214,807**	226,867	**6,595**	6,740
Interests in leasehold land held for own use under operating leases	**22,816**	19,420	**–**	–
	237,623	246,287	**6,595**	6,740

(d) During the year, certain fixed assets with net book value of $950,000 (2005: $10,561,000) were transferred to an associate as part of the Group's capital injection therein. In addition, certain fixed assets with net book value of $1,883,000 (2005: $11,816,000) were sold to another associate (note 32(a)).

(e) At 31 July 2006 and 2005, certain fixed assets have been pledged as security for the bank loans (note 23(b)).

(f) The Group leases certain production plant and machinery under finance leases expiring in one to three years. At the end of the respective lease term, the Group has the option to purchase the equipment at a price deemed to be a bargain purchase options. None of the leases includes contingent rentals.

The net book value of plant and machinery held under finance leases of the Group was $53,594,000 (2005: $40,128,000).

(g) Land use right certificate of a land use right with a net book value of $3,503,000 at 31 July 2006 was yet to be obtained.

(Expressed in Hong Kong dollars unless otherwise indicated)

15 GOODWILL

	The Group $'000
Cost:	
At 1 August 2004 and 31 July 2005	2,743
At 1 August 2005	2,743
Opening balance adjustment to eliminate accumulated amortisation	(571)
At 31 July 2006	2,172
Accumulated amortisation:	
At 1 August 2004	297
Amortisation for the year	274
At 31 July 2005	571
At 1 August 2005	571
Eliminated against cost at 1 August 2005	(571)
At 31 July 2006	–
Carrying amount:	
At 31 July 2006	2,172
At 31 July 2005	2,172

In 2005, positive goodwill not already recognised directly in reserves was amortised on a straight-line basis over ten years. The amortisation of positive goodwill for the year ended 31 July 2005 was included in "administrative expenses" in the consolidated income statement.

As explained further in note 2(f), with effect from 1 August 2005 the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 August 2005 has been eliminated against the cost of goodwill as at that date.

The directors make an assessment on the recoverable amount of goodwill annually and considered that there was no indication of impairment at 31 July 2006.

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006 **$'000**	2005 $'000
Unlisted shares, at cost	**258,122**	258,122

Details of the subsidiaries at 31 July 2006 are set out below. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

				Proportion of ownership interest			
Name of company	**Place of incorporation**	**Place of operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by subsidiaries**	**Principal activity**
V.S. International Industry Limited	British Virgin Islands ("BVI")	Hong Kong	US$100	100%	100%	–	Investment holding
V.S. Investment Holdings Limited	BVI	Hong Kong	$54,000,025	100%	100%	–	Investment holding
V.S. Corporation (Hong Kong) Co. Limited ("VSHK")	Hong Kong	PRC	$75,000,002 (75,000,000 non-voting deferred shares of $1 each and 2 ordinary shares of $1 each (note (iv)))	100%	–	100%	Manufacturing and selling of plastic moulded products and parts
V.S. Industry (Shenzhen) Co., Ltd. (note (i))	PRC	PRC	$10,000,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts
VS Zhuhai (note (i))	PRC	PRC	US$27,200,000	100%	–	100%	Manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
Haivs Industry (Qingdao) Co., Ltd. (note (i))	PRC	PRC	RMB32,150,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts
Qingdao GS Electronics Plastic Co., Ltd. (note (i))	PRC	PRC	RMB73,980,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts
Qingdao GP Electronic Plastics Co., Ltd. (note (i))	PRC	PRC	US$1,069,948	100%	–	100%	Business operation not yet commenced
VSA Holding Hong Kong Co., Limited ("VSA(HK)")	Hong Kong	PRC	$15,600,000	71%	–	71%	Assembling and selling of electronic products, parts and components
VSA Electronics Technology (Zhuhai) Co., Ltd. (note (iii))	PRC	PRC	US$6,500,000	98.55%	–	98.55%	Assembling and selling of electronic products, parts and components
V.S. Capital Holdings Limited	Hong Kong	N/A	$2	100%	–	100%	Dormant
V.S. Industry (Zhuhai) Co., Ltd. (note (ii))	PRC	PRC	US$3,216,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts
V.S. Holding Vietnam Limited	BVI	Hong Kong	US$100	100%	100%	–	Investment holding

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Notes:

(i) These are wholly foreign owned enterprises established in the PRC.

(ii) This is a sino-foreign equity joint venture company established in the PRC. The registered capital is held by two of the Company's wholly-owned subsidiaries.

(iii) This is a foreign equity joint venture company established in the PRC.

(iv) In accordance with the articles of association of VSHK, a shareholder of non-voting deferred shares is not entitled to any dividend or any participation in the profits or assets of VSHK and is also not entitled to vote at any general meeting.

17 INTERESTS IN ASSOCIATES

	2006 **$'000**	2005 $'000
Share of net assets	**12,007**	9,528

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or the assets of the Group.

Name of associate	Form of business structure	Place of incorporation	Place of operation	Particulars of capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by subsidiaries	Principal activity
Wako VS Nano Technologies (Zhuhai) Co., Ltd. ("Wako VS Zhuhai")	Sino-foreign equity joint venture	PRC	PRC	Registered capital US$3,900,000	47.2% (note (i))	35.1%	Manufacturing and selling of plastic parts and components of electronic products using spray painting technology
Wako VS Nano Technologies (Hong Kong) Co., Ltd. ("Wako VS HK")	Limited liability company	Hong Kong	PRC	2,600,000 ordinary shares of US$1 each	18.9% (note (ii))	18.9%	Investment holding

17 INTERESTS IN ASSOCIATES (CONTINUED)

Name of associate	Form of business structure	Place of incorporation	Place of operation	Particulars of capital	Proportion of ownership interest Group's effective interest	Held by subsidiaries	Principal activity
VS Industry Vietnam Co., Ltd. ("VS Vietnam")	Limited liability company	Vietnam	Vietnam	Legal capital of US$5,956,500	15.0% (note (ii))	15.0%	Manufacturing and selling of plastic moulded products and parts
VS-Usotor (Zhuhai) Co., Ltd. ("VS-Usotor")	Sino-foreign equity joint venture	PRC	PRC	Registered capital HK$5,000,000	19.0% (note (ii))	19.0%	Manufacturing and selling of metal stamped parts and components

Notes:

(i) Wako VS HK holds a direct equity interest of 64.1% in Wako VS Zhuhai. Hence, the Group's effective equity interest in Wako VS Zhuhai is 47.2%.

(ii) Although the Group's equity interests in Wako VS HK, VS Vietnam and VS-Usotor, are 18.9%, 15% and 19% respectively, by virtue of the significant influence over their management, including participating in the financial and operating policy decisions, they are considered to be associates of the Group.

The aggregate financial information on 100% interests in the associates are as follows:

	2006 $'000	2005 $'000
Assets	143,690	69,750
Liabilities	(64,578)	(25,958)
Equity	79,112	43,792
Revenues	42,566	33,160
Losses	(12,861)	(7,347)

18 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2006	2005
	$'000	$'000
Raw materials	**68,196**	72,858
Work-in-progress	**50,679**	33,548
Finished goods	**43,718**	74,406
	162,593	180,812

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2006	2005 (restated)
	$'000	$'000
Carrying amount of inventories sold	**1,196,030**	1,035,681
Write down of inventories	**145**	2,261
Reversal of write-down of inventories	**(975)**	–
	1,195,200	1,037,942

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain goods as a result of a change in consumer preferences.

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Amounts due from subsidiaries	**–**	–	**59,889**	50,673
Trade receivables	**210,809**	212,973	**–**	–
Bills receivable	**30,841**	10,422	**–**	–
Other receivables, prepayments and deposits	**42,258**	36,781	**78**	64
	283,908	260,176	**59,967**	50,737

Bills discounted to bank with recourse totalling $22,676,000 were included in bills receivables (note 23(b)) as at 31 July 2006.

At 31 July 2005, certain bills receivable have been pledged as security for banking facilities (note 22(b)).

All of the trade and other receivables including amounts due from subsidiaries are expected to be recovered within one year. Amounts due from subsidiaries are unsecured, interest free and repayable upon demand.

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2006	2005
	$'000	$'000
Within 30 days	**126,614**	121,433
Over 30 days but within 90 days	**85,411**	81,271
Over 90 days but within 1 year	**29,625**	20,691
	241,650	223,395

The Group's credit policy is set out in note 29(a).

20 DEPOSITS WITH BANKS

	The Group	
	2006	2005
	$'000	$'000
Deposits with banks with original maturity date over 3 months	**18,542**	1,923
Pledged fixed deposit with banks	**61,329**	154,780
	79,871	156,703

Pledged fixed deposits with banks have been pledged to banks as security for the bank loans and overdrafts (note 23(b)), and other banking facilities (note 22(b)).

21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**161,485**	109,631	**1,634**	371
Cash and cash equivalents in the balance sheet	**161,485**	109,631	**1,634**	371
Bank overdrafts (note 23(a))	**(2,138)**	(25,314)		
Cash and cash equivalents in the consolidated cash flow statement	**159,347**	84,317		

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Amounts due to subsidiaries	**–**	–	**80,950**	73,785
Trade payables	**191,033**	187,344	**–**	–
Bills payable	**4,873**	20,883	**–**	–
Accrued expenses and other payables	**78,456**	94,456	**11,122**	5,691
	274,362	302,683	**92,072**	79,476

All trade and other payables including amounts due to subsidiaries are expected to be settled within one year. Amounts due to subsidiaries are unsecured, interest free and repayable upon demand.

(a) Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	The Group	
	2006	2005
	$'000	$'000
Due within 30 days or on demand	**84,561**	150,342
Due after 30 days but within 90 days	**87,968**	38,339
Due after 90 days but within 180 days	**18,504**	19,546
Due after 180 days but within 1 year	**4,873**	–
	195,906	208,227

(b) Banking facilities in connection with trade finance are secured by the following assets of the Group:

	The Group	
	2006	2005
	$'000	$'000
Pledged fixed deposit with banks (note 20)	**4,873**	13,807
Bills receivable (note 19)	**–**	5,769
	4,873	19,576

23 INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Current:				
Within 1 year or on demand	**508,422**	501,881	**450**	900
Non-current:				
After 1 year but within 2 years	**112,454**	118,867	**–**	450
After 2 years but within 5 years	**124,328**	158,138	**–**	–
After 5 years	**–**	–	**–**	–
	236,782	277,005	**–**	450
	745,204	778,886	**450**	1,350

(a) An analysis of current and non-current bank loans and overdrafts is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Current:				
Overdrafts				
– secured	**2,138**	25,314	**–**	–
Bank loans				
– secured	**353,580**	279,331	**450**	900
– unsecured	**152,704**	197,236	**–**	–
	506,284	476,567	**450**	900
	508,422	501,881	**450**	900
Non-current:				
Bank loans				
– secured	**236,782**	277,005	**–**	450
	745,204	778,886	**450**	1,350

None of the non-current bank loans is expected to be settled within one year.

23 INTEREST-BEARING BORROWINGS (CONTINUED)

(b) Certain banking facilities, including overdrafts and bank loans, are secured by the following assets of the Group and the Company:

	The Group		The Company	
	2006	2005 (restated)	**2006**	2005 (restated)
	$'000	$'000	**$'000**	$'000
Bills receivable (note 19)	**22,676**	–	**–**	–
Fixed deposits (note 20)	**56,456**	140,973	**–**	–
Motor vehicles with aggregate carrying value (note 14(e))	**–**	828	**–**	–
Buildings held for own use with aggregate carrying value (note 14(e))	**197,648**	218,301	**6,595**	6,704
Plant and machinery with aggregate carrying value (note 14(e))	**199,086**	175,385	**–**	–
Interests in leasehold land held for own use under operating leases with aggregate carrying value (note 14(e))	**10,582**	19,135	**–**	–
	486,448	554,622	**6,595**	6,704

Such banking facilities, totalling $621,291,000 (2005: $595,539,000), were utilised to the extent of $592,500,000 (2005: $581,650,000) at 31 July 2006.

(c) One of the Group's banking facilities is subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 29(b). As at 31 July 2006 and 31 July 2005, none of the covenants relating to drawn down facilities had been breached.

24 OBLIGATIONS UNDER FINANCE LEASES

At 31 July 2006, the Group had obligations under finance leases repayable as follows:

	The Group					
	2006			2005		
	Present value of the minimum lease payments $'000	**Interest expense relating to future periods $'000**	**Total minimum lease payments $'000**	Present value of the minimum lease payments $'000	Interest expense relating to future periods $'000	Total minimum lease payments $'000
Within 1 year	**11,415**	**910**	**12,325**	12,063	598	12,661
After 1 year but within 2 years	**3,676**	**389**	**4,065**	8,310	167	8,477
After 2 years but within 5 years	**3,298**	**125**	**3,423**	319	1	320
	6,974	**514**	**7,488**	8,629	168	8,797
	18,389	**1,424**	**19,813**	20,692	766	21,458

The Company has given a corporate guarantee for the lease obligations.

25 SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was approved by the then shareholders on 20 January 2002 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants, including directors of any Company in the Group, to take up options to subscribe for shares in the Company.

The exercise price of options granted, as specified in the rules governing the Share Option Scheme, is to be not less than the higher of the closing price of the shares of the Company on the Stock Exchange on the date of the offer of grant of the options, the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options and the nominal value of a share. For acceptance of options granted by the Company, an eligible participant is required to remit $1 to the Company at the principal place of business of the Company in Hong Kong within 21 days from the date of receiving the offer of the options. As at 12 July 2005, 58 eligible participants had accepted the offer of options granted by the Company.

25 SHARE OPTION SCHEME (CONTINUED)

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

Date granted	Vesting period	Exercise period	Options granted Directors '000	Options granted Employees '000	Total '000
12 July 2005	–	12 July 2005 to 12 July 2007	7,600	4,647	12,247
	12 July 2005 to 24 November 2005	25 November 2005 to 12 July 2007	7,600	4,647	12,247
	12 July 2005 to 9 April 2006	10 April 2006 to 12 July 2007	7,600	4,647	12,247
	12 July 2005 to 22 August 2006	23 August 2006 to 12 July 2007	7,600	4,647	12,247
			30,400	18,588	48,988

Pursuant to the rules of the Share Option Scheme, options will lapse when the grantee ceases to be an employee of the Group for reasons other than death, ill-health or retirement.

(b) The number and weighted average exercise prices of options are as follows:

	2006 Weighted average exercise price	**2006** Number of options '000	2005 Weighted average exercise price	2005 Number of options '000
Outstanding at the beginning of the year	**$0.18**	**48,988**	–	–
Exercised during the year	**$0.18**	**(19,215)**	–	–
Lapsed during the year	**$0.18**	**(2,012)**	–	–
Granted during the year	**–**	**–**	$0.18	48,988
Outstanding at the end of the year	**$0.18**	**27,761**	$0.18	48,988
Exercisable at the end of the year	**$0.18**	**15,514**	$0.18	12,247

The weighted average share price at the date of exercise for options exercised during the year was $0.29 (2005: N/A).

The options outstanding at 31 July 2006 had an exercise price of $0.18 (2005: $0.18) and a weighted average remaining contractual life of 1 year (2005: 2 years).

25 SHARE OPTION SCHEME (CONTINUED)

(c) Fair value of options and assumptions

The fair value of services received in return for options granted is measured by reference to the fair value of options granted. The estimate of the fair value of the services received is measured based on a binomial model with modification to reflect the impact of vesting period, exit rate and exercise pattern on the option value.

Fair value of options and assumptions

Fair value at measurement date (weighted average)	$0.046
Share price	$0.185
Exercise price	$0.180
Expected volatility (expressed as weighted average volatility used in the modelling under the binomial model)	50%
Option life (expressed as weighted average life used in the modelling under the binomial model)	2 years
Expected dividends	4%
Risk-free interest rate (based on Exchange Fund Notes)	3.714%

The expected volatility is based on the historic volatility (the Company's share price over one year prior to the grant date and in contrast to companies with similar businesses), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

There were no market conditions associated with the option grants.

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2006	2005
	$'000	$'000
Provision for the PRC income tax for the year	**6,291**	4,082
Tax Paid	**(5,456)**	(4,170)
	835	(88)
Balance of income tax provision relating to prior years	**82**	170
PRC income tax payable	**917**	82

(b) Deferred tax assets not recognised

No deferred tax assets in respect of accumulated tax losses of $27,552,000 (2005: $1,558,000) have been recognised as it is not probable that the future taxable profits against which the losses can be utilised. The tax losses do not expire under current tax legislation. In addition, other deferred tax assets or liabilities have not been recognised as all the deductible or temporary differences are not material.

27 SHARE CAPITAL

	2006		2005	
	Number of shares '000	Amount $'000	Number of shares '000	Amount $'000
Authorised:				
Ordinary shares of $0.05 each	4,000,000	200,000	4,000,000	200,000
Issued and fully paid:				
At 1 August	820,000	41,000	820,000	41,000
Shares issued under the Share Option Scheme	19,215	961	–	–
At 31 July	839,215	41,961	820,000	41,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Shares issued under the Share Option Scheme

During the year, options were exercised to subscribe for 19,215,000 ordinary shares in the Company at a consideration of $3,458,000 of which $961,000 was credited to share capital and the balance of $2,497,000 was credited to the share premium account. $859,000 has been transferred from the employee share-based capital reserve to the share premium account in accordance with policy set out in note 1(n)(ii).

Terms of unexpired and unexercised options at balance sheet date

Exercise period	Exercise price	2006 Number of options '000	2005 Number of options '000
12 July 2005 to 12 July 2007	$0.18	5,284	12,247
25 Nov 2005 to 12 July 2007	$0.18	5,344	12,247
10 April 2006 to 12 July 2007	$0.18	5,638	12,247
23 August 2006 to 12 July 2007	$0.18	11,495	12,247
		27,761	48,988

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 25 to the financial statements.

28 RESERVES

(a) The Group

	Note	Share premium $'000 (Note 28(b)(i))	Contributed surplus $'000 (Note 28(b)(i))	Foreign exchange translation reserve $'000 (Note (i))	Land and buildings revaluation reserve $'000	Statutory reserve fund $'000 (Note (ii))	Employee share-based capital reserve $'000 (Note 28(b)(ii))	Retained profits $'000	Total $'000	Minority interests $'000	Total $'000
		Attributable to equity holders of the Company									
At 1 August 2004											
– as previously reported		63,755	35,800	304	93,620	13,015	–	140,739	347,233	4,164	351,397
– prior period adjustment in respect of HKAS 17	2(c)	–	–	–	(93,620)	–	–	(770)	(94,390)	–	(94,390)
– as restated		63,755	35,800	304	–	13,015	–	139,969	252,843	4,164	257,007
Profit for the year, as restated		–	–	–	–	–	–	24,587	24,587	1,349	25,936
Appropriation to reserves		–	–	–	–	5,140	–	(5,140)	–	–	–
Dividend approved in respect of previous year		–	(4,100)	–	–	–	–	–	(4,100)	–	(4,100)
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, as restated		–	–	9,272	–	–	–	–	9,272	–	9,272
Equity settled share-based transactions, as restated		–	–	–	–	–	689	–	689	–	689
Balance as at 31 July 2005, as restated		63,755	31,700	9,576	–	18,155	689	159,416	283,291	5,513	288,804

28 RESERVES (CONTINUED)

(a) The Group (continued)

	Note	Attributable to equity holders of the Company									
		Share premium	Contributed surplus	Foreign exchange translation reserve	Land and buildings revaluation reserve	Statutory reserve fund	Employee share-based capital reserve	Retained profits	Total	Minority interests	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
		(Note 28(b)(i))	(Note 28(b)(i))	(Note (i))		(Note (ii))	(Note 28(b)(ii))				
At 1 August 2005											
– as previously reported		63,755	31,700	11,089	108,666	18,155	–	161,187	394,552	5,513	400,065
– prior period adjustments in respect of:											
– HKFRS 2	2(e)	–	–	–	–	–	689	(689)	–	–	–
– HKAS 17	2(c)	–	–	(1,513)	(108,666)	–	–	(1,082)	(111,261)	–	(111,261)
– as restated		63,755	31,700	9,576	–	18,155	689	159,416	283,291	5,513	288,804
Shares issued under share option scheme	27	3,356	–	–	–	–	(859)	–	2,497	–	2,497
Equity settled share-based transactions	25	–	–	–	–	–	1,516	–	1,516	–	1,516
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		–	–	6,432	–	–	–	–	6,432	–	6,432
Dividend approved in respect of the previous year		–	(6,606)	–	–	–	–	–	(6,606)	(520)	(7,126)
Share options lapsed during the year	25	–	–	–	–	–	(92)	92	–	–	–
Appropriation to reserves		–	–	–	–	4,768	–	(4,768)	–	–	–
Profit for the year		–	–	–	–	–	–	45,323	45,323	117	45,440
At 31 July 2006		67,111	25,094	16,008	–	22,923	1,254	200,063	332,453	5,110	337,563

Notes:

(i) Foreign exchange translation reserve

The foreign exchange translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy as set out in note 1(r).

(ii) Statutory reserve fund

According to the articles of association of the subsidiaries of the Company in the PRC, the subsidiaries are required to transfer at least 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations applicable to enterprises with foreign investment, to the statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to the Company.

The statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into share capital.

28 RESERVES (CONTINUED)

(b) The Company

	Note	Share premium $'000 (Note (i))	Contributed surplus $'000 (Note (i))	Land and buildings revaluation reserve $'000	Employee share-based capital reserve $'000 (Note (ii))	Acc-umulated losses $'000	Total $'000
At 1 August 2004							
– as previously reported		63,755	164,922	315	–	(9,998)	218,994
– prior period adjustment in respect of HKAS 17	2(c)	–	–	(315)	–	–	(315)
– as restated		63,755	164,922	–	–	(9,998)	218,679
Loss for the year, as restated		–	–	–	–	(21,058)	(21,058)
Dividend approved in respect of previous year		–	(4,100)	–	–	–	(4,100)
Equity settled share-based transactions, as restated		–	–	–	689	–	689
Balance as at 31 July 2005, as restated		63,755	160,822	–	689	(31,056)	194,210
At 1 August 2005							
– as previously reported		63,755	160,822	2,760	–	(30,367)	196,970
– prior period adjustments in respect of:							
– HKFRS 2	2(e)	–	–	–	689	(689)	–
– HKAS 17	2(c)	–	–	(2,760)	–	–	(2,760)
– as restated		63,755	160,822	–	689	(31,056)	194,210
Shares issued under Share Option Scheme	27	3,356	–	–	(859)	–	2,497
Equity settled share-based transactions	25	–	–	–	1,516	–	1,516
Dividend approved in respect of previous year		–	(6,606)	–	–	–	(6,606)
Share options lapsed during the year	25	–	–	–	(92)	92	–
Profit for the year		–	–	–	–	251	251
At 31 July 2006		67,111	154,216	–	1,254	(30,713)	191,868

28 RESERVES (CONTINUED)

(b) The Company (continued)

Notes:

(i) Share premium and contributed surplus

(a) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Pursuant to a reorganisation, the Company became the holding company of the Group on 20 January 2002. The excess of the consolidated net assets represented by the shares acquired over the nominal value of shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus.

(ii) Employee share-based capital reserve

Employee share-based capital reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group in accordance with the accounting policy adopted for share-based payments in note 1(n)(ii).

(iii) Distributability of reserves

As 31 July 2006, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to $191,868,000 (2005: (restated) $194,210,000) subject to the restrictions stated above. After the balance sheet date, the directors proposed a final dividend of 0.8 cents per ordinary share (2005: 0.8 cents per ordinary share), amounting to $6,714,000 (2005: $6,606,000). This dividend has not been recognised as a liability at the balance sheet date.

29 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Credit terms granted by the Group to customers generally range from 30 to 120 days. Debtors with balances that are more than 12 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk as 17% (2005: 20%) and 41% (2005: 43%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any other guarantees which would expose the Group to credit risk.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

In accordance with prevailing practice in the PRC, banking facilities granted by authorised financial institutions in the PRC usually have terms such that they will expire or are subject to renegotiation or renewal within one year from the date of grant. The Group's policy is to negotiate with such authorised financial institutions in the PRC on a regular basis to ensure that there are no material adverse conditions in the PRC which may preclude the Group from being able to extend or renew the current bank loans upon expiry or from securing adequate banking facilities to meet the Group's financial requirements.

29 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2006						2005					
	Effective interest rate %	Total $'000	1 year or less $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000	Effective interest rate %	Total $'000	1 year or less $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000
Repricing dates for assets/(liabilities) which reprice before maturity												
Cash and cash equivalents	0.7%	161,485	161,485	-	-	-	0.7%	109,631	109,631	–	–	–
Deposits with banks	5.5%	24,424	24,424	-	-	-	3.9%	67,409	67,409	–	–	–
Bank overdrafts	8.8%	(2,138)	(2,138)	-	-	-	7.0%	(25,314)	(25,314)	–	–	–
Bank loans	6.4%	(233,082)	(233,082)	-	-	-	4.6%	(252,151)	(252,151)	–	–	–
Obligations under finance leases	6.8%	(18,389)	(18,389)	-	-	-	6.5%	(20,692)	(20,692)	–	–	–
		(67,700)	(67,700)	-	-	-		(121,117)	(121,117)	–	–	–
Maturity dates for assets/(liabilities) which do not reprice before maturity												
Deposits with banks	3.2%	55,447	55,447	-	-	-	3.5%	89,294	89,294	–	–	–
Bank loans	5.9%	(509,984)	(273,202)	(112,454)	(124,328)	-	5.0%	(501,421)	(224,416)	(118,867)	(158,138)	–
Loans from a substantial shareholder	5.0%	(29,274)	(4,879)	(4,879)	(14,637)	(4,879)	5.0%	(34,240)	(4,892)	(4,892)	(14,676)	(9,780)
		(483,811)	(222,634)	(117,333)	(138,965)	(4,879)		(446,367)	(140,014)	(123,759)	(172,814)	(9,780)

29 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

The Company

	2006						2005					
	Effective interest rate %	Total $'000	1 year or less $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000	Effective interest rate %	Total $'000	1 year or less $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000
Repricing dates for assets/(liabilities) which reprice before maturity												
Cash and cash equivalents	2.0%	1,634	1,634	-	-	-	1.8%	371	371	–	–	–
Maturity dates for assets/(liabilities) which do not reprice before maturity												
Bank loans	6.7%	(450)	(450)	-	-	-	6.7%	(1,350)	(900)	(450)	–	–

(d) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HKD"), United States dollars ("USD"), Japanese Yen and Renminbi ("RMB").

RMB is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China ("PBOC"). During the year ended 31 July 2006, the exchange rate regime was reformed by moving into a managed floating exchange regime based on the market supply and demand with reference to a basket of foreign currencies from unified controlled exchange rate. However, it does not imply convertibility of RMB into other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other institutions authorised to buy and sell foreign currencies. Approval of foreign currency payments, including remittances of dividends, by the PBOC or other institutions requires submitting a payment application form together with relevant supporting documents.

As the HKD is pegged to the USD, and the RMB pegged to the USD within a narrow band, the Group does not expect any significant movements in the USD/HKD or RMB/HKD exchange rate.

29 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign currency risk (continued)

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group's borrowings are mainly denominated in either HKD, USD and RMB. Management does not expect that there will be any significant currency risk associated with the Group's borrowings.

Included in assets and liabilities are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group							
	USD		HKD		RMB		Japanese Yen	
	2006 '000	2005 '000	**2006 '000**	2005 '000	**2006 '000**	2005 '000	**2006 '000**	2005 '000
Trade and other receivables	**34,187**	38,312	**12,928**	12,174	**22,501**	38,638	**441**	–
Deposits with bank	**10,151**	9,708	**–**	–	**12,671**	25,000	**–**	–
Cash and cash equivalents	**19,119**	50,416	**5,308**	3,434	**33,899**	8,053	**–**	–
Trade and other payables	**8,843**	10,035	**11,810**	11,410	**79,774**	95,433	**1,591**	16,403
Interest-bearing borrowings	**135,982**	106,795	**–**	48,000	**427,096**	369,826	**–**	–
	208,282	215,266	**30,046**	75,018	**575,941**	536,950	**2,032**	16,403

	The Company							
	USD		HKD		RMB		Japanese Yen	
	2006 '000	2005 '000	**2006 '000**	2005 '000	**2006 '000**	2005 '000	**2006 '000**	2005 '000
Trade and other receivables	**–**	–	**–**	–	**–**	–	**–**	–
Deposits with bank	**–**	–	**–**	–	**–**	–	**–**	–
Cash and cash equivalents	**37**	36	**–**	–	**–**	–	**–**	–
Trade and other payables	**–**	–	**–**	–	**–**	–	**–**	–
Interest-bearing borrowings	**–**	–	**–**	–	**–**	–	**–**	–
	37	36	**–**	–	**–**	–	**–**	–

29 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 July 2006 and 2005.

(f) Estimation of fair value

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Interest-bearing loans and borrowings and finance lease liabilities.

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(ii) Interest rate used for determining fair value:

The market interest rates adopted are as follows:

	The Group	
	2006	2005
Loans and borrowings	**5.9%– 7.8%**	4.0%– 5.9%
Finance lease liabilities	**4.9%– 8.4%**	5.1%– 6.9%

30 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 July 2006 not provided for in the financial statements were as follows:

	The Group	
	2006 **$'000**	2005 $'000
Contracted for	**22,905**	22,122
Authorised but not contracted for	**12,792**	6,429
	35,697	28,551

30 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

The Group leases a number of properties under operating leases. The leases typically run for periods from one year to three years with an option to renew the lease upon expiry when all terms are renegotiated. Lease charges of $10,262,000 (2005: $9,916,000) were recognised as expenses in the consolidated income statement in respect of operating leases. None of the leases includes contingent rentals.

The total future minimum lease payments of properties under non-cancellable operating leases are payable as follows:

	The Group	
	2006	2005
	$'000	$'000
Within 1 year #	**1,158**	19,464
After 1 but within 5 years #	**1,202**	11,809
After 5 years *	**–**	–
	2,360	31,273

\# The total future minimum operating lease payments as at 31 July 2005 included amounts of $17,480,000 and $10,307,000 which were payable to a company controlled by a director within one year and after one year but within five years, respectively. These future minimum lease payments were determined with reference to maximum occupancy of the properties leased by the Group pursuant to the relevant operating lease agreement. During the year ended 31 July 2006, certain properties of lessor, which were subject to the operating lease agreement, were not made available to the Group. After negotiating with the lessor, actual operating lease payments of $7,962,000 were made by the Group during the year ended 31 July 2006 for leasing the available properties. As agreed by both parties, the operating lease agreement was terminated on 31 July 2006 and a new cancellable operating lease agreement with lease term of one year was entered into between the parties on 2 August 2006.

* The Group paid a compensation of $323,000 (2005:$318,000) for early termination of a lease (note 6(b)).

Significant leasing arrangements in respect of machinery classified as being held under finance leases and land held under operating lease are described in notes 14 and 24.

31 CONTINGENT LIABILITIES

At 31 July 2006, contingent liabilities of the Group and the Company were as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Guarantees given to banks by the Company in respect of banking facilities utilised by certain subsidiaries	**–**	–	**617,262**	645,733
Guarantees given to suppliers of credit facilities utilised by certain subsidiaries	**–**	–	**21,042**	33,447
Bills discounted with banks	**–**	30,220	**–**	–
	–	30,220	**638,304**	679,180

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

	2006 $'000	2005 $'000
Sales to a substantial shareholder	2,914	1,139
Sales to a company controlled by a substantial shareholder	–	207
Sales to associates	4,619	3,458
Sales to minority shareholders of VSA(HK)	30,445	37,211
	37,978	42,015
Interest paid and payable to a substantial shareholder (note 32(c))	1,605	1,905
Sales of fixed assets to an associate *	1,883	15,854
Royalty fee paid and payable to a minority shareholder of VSA(HK)	665	729
Operating lease charges paid and payable to a company controlled by a director	7,962	7,014
Operating lease charges received and receivable from an associate	902	698
Purchase of raw materials from a substantial shareholder	439	560
Management fee received and receivable from an associate	–	467
Management fee paid and payable to a company controlled by a director	575	–
Sub-contracting fee paid and payable to an associate	1,688	5,774
Sub-contracting fee paid and payable to a substantial shareholder	2,032	–
Dividends paid to minority shareholders of VSA(HK)	520	–

* There was no gain or loss on disposal of fixed assets to an associate in the year ended 31 July 2006. During the year ended 31 July 2005, the Group sold certain fixed assets with net book value of $11,816,000 to another associate for a consideration of $15,854,000. The gain on disposal after eliminating the unrealised portion is recorded in "Other net losses".

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms or on terms described above in the ordinary course of business of the Group.

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Amounts due from related parties included as part of trade and other receivables were as follows:

	The Group	
	2006	2005
	$'000	$'000
Amount due from a minority shareholder of VSA(HK)	**1,372**	5,554
Amount due from a company controlled by a director	**2,644**	2,235
Amounts due from associates	**7,915**	3,370
Amount due from a substantial shareholder	**133**	–
	12,064	11,159

Amounts due from related parties are interest free, unsecured and have no fixed terms of repayment.

(c) Amounts due to related parties were detailed as follows:

	The Group			
	2006		2005	
	Trade and other payables $'000	**Loan from a substantial shareholder* $'000**	Trade and other payables $'000	Loan from a substantial shareholder* $'000
Amount due to directors	**8,796**	**–**	3,359	–
Amount due to a company controlled by a director	**–**	**–**	–	–
Amount due to an associate	**518**	**–**	–	–
Amount due to a minority shareholder of VSA(HK)	**–**	**–**	503	–
Amount due to a substantial shareholder				
– current portion	**619**	**4,879**	2,487	4,892
– non-current portion	**–**	**24,395**	–	29,348
	9,933	**29,274**	6,349	34,240

* Pursuant to the loan agreement entered into between the Group and the substantial shareholder dated 20 January 2002, the loan, which amounted to US$6,279,000 (equivalent to $48,916,000) as at the date of the loan agreement is repayable in twenty equal consecutive half-yearly instalments on 1 February and 1 August each year commencing on 1 August 2002. The loan is unsecured and carries interest at 5% per annum (2005: 5%) on the outstanding balance. Interest paid and payable to the substantial shareholder, amounted to $1,605,000 (2005: $1,905,000) for the year ended 31 July 2006.

Except for the loan from a substantial shareholder of the Company, the amounts due to other related parties are interest free, unsecured and have no fixed terms of repayment.

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management personnel remuneration

The Group has not identified any person, other than the directors of the Company, having the authority and responsibility for planning, directing and controlling the activities of the Group. The remuneration information of directors of the Company is presented in note 8.

33 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2.

34 ACCOUNTING ESTIMATES AND JUDGMENTS

Notes 25 and 29 contain information about the assumptions and their risk factors relating to fair value of share options granted and financial instruments. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements:

(a) Going concern basis of preparation

As disclosed in note 1(b), the financial statements have been prepared on a going concern basis. The appropriateness of the going concern basis is assessed after taking into consideration all relevant available information about the future of the Group, including business forecasts and cash flow projections for the year ending 31 July 2007. Such forecasts and projections about future inherently involve uncertainties. Actual results could differ significantly and hence render the adoption of the going concern basis not appropriate.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets, taking into account upgrading and improvement work performed, and anticipated technological changes. The depreciation for future periods is adjusted if there are significant changes from previous estimates.

(c) Provision for inventories

As explained in note 1(i), the Group's inventories are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the inventories, the Group makes estimates of the selling prices, the costs to be incurred in selling the inventories and the costs of completion in case for work in progress. Uncertainty exists in these estimations.

(d) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(Expressed in Hong Kong dollars unless otherwise indicated)

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 JULY 2006

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 July 2006 and which have not been adopted in these consolidated financial statements.

		Effective for accounting periods beginning on or after
HKFRS 6	Exploration for evaluation of mineral resources	1 January 2006
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6	Liabilities arising from participating in a specific market– Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 19	Employee benefits– Actuarial gains and losses, group plans and disclosures	1 January 2006
Amendments to HKAS 39	Financial instruments: Recognition and measurement:	
	– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
	– The fair value option	1 January 2006
	– Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
– HKAS 1	Presentation of financial statements	1 January 2006
– HKAS 27	Consolidated and separate financial statements	1 January 2006
– HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 JULY 2006 (CONTINUED)

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and the related disclosure requirements would be first applicable to the financial statements for the period beginning 1 August 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.