NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "Group") is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The changes in accounting policies resulting from these developments had no material effect on 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 38).

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries.

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 judgements, 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 37.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a 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.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 1(h)).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) 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 profit or loss.

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.

(e) Property, plant and equipment

Leasehold land and buildings held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment *(continued)*

Changes arising on the revaluation of properties held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

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 profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

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:

Leasehold land and buildings	2.5% or over the term of the leases if less than 40 years
Plant and machinery	10% – 20%
Furniture, fixtures and equipment	20%
Motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(h)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Development costs	10 years
Technical know-how	5 years
Distribution rights	Over the remaining term of the distribution agreement

Both the period and method of amortisation are reviewed annually.

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1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(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, with the following exception:

– 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 purchases, 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.

(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 property, plant and equipment 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 or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(e). 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 profit or loss 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. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Leased assets *(continued)*

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(h) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other 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, 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), where the effect of discounting is material.

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 profit or loss. 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 (other than properties carried at revalued amounts);
– intangible assets;
– investments in subsidiaries; and
– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, 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).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss 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 an impairment loss 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 profit or loss in the year in which the reversals are recognised.

(i) Inventories

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

Cost is calculated using the weighted average 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.

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1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Inventories *(continued)*

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) 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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Compound financial instruments

Financial instruments in respect of interest-bearing borrowings and warrants issued simultaneously under a composite arrangement, where the number of shares to be issued under the warrants does not vary with changes in their fair value, are deemed to be a compound financial instrument and accounted for as follows:

– the liability component of the compound financial instrument is recognised initially at the fair value of a similar stand-alone liability. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

– Subsequent to initial recognition, the liability component of the compound financial instrument is measured at amortised cost using the effective interest method. In the event of an early redemption of the liability component before its contractual or expected maturity, any difference between the carrying value of the liability component and its redemption value is recognised as a gain or loss on redemption in profit or loss.

– the equity component of the compound financial instrument is not remeasured subsequent to initial recognition. The equity component is included in the capital reserve until either the warrants are exercised or lapsed. If the warrants are exercised, the capital reserve is transferred to share premium as part of consideration for the shares issued. If the warrants are lapsed, the capital reserve is released directly to retained profits.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(q)(ii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

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1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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.

(o) 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.

(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 the grant date using the appropriate valuation techniques, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Employee benefits *(continued)*

(ii) Share based payments (continued)

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 profit or loss 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 the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of 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.

(p) 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 profit or loss 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.

REUSE
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1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

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 profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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.

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1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(q)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Financial guarantees issued, provisions and contingent liabilities *(continued)*

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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 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.

(r) Derecognition of financial assets

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

(s) 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 profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered 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 tax or other sales taxes and is after deduction of any goods returned and trade discounts.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Revenue recognition *(continued)*

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the 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 profit or loss as an integral part of the aggregate net lease payments receivables. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

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

(t) 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 profit or loss.

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 operations outside Hong Kong are translated into Hong Kong dollars at the exchange rate approximating the rates of exchange ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

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1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) 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. 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 enterprises 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 (both tangible and intangible) 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 TURNOVER

The principal activities of the Group are remanufacturing and sale of computer printing and imaging products, manufacturing and sale of data media products and distribution and sale of branded data media products from third party vendors.

2 TURNOVER *(continued)*

Turnover represents the invoiced value of goods sold to customers and is stated after deducting goods returned and trade discounts and is analysed by business segment as follows:

	2006	2005
	$'000	$'000
Remanufacture and sale of computer printing and imaging products	**133,097**	98,786
Manufacture and sale of data media products	**105,573**	126,890
Distribution and sale of data media products	**106,882**	104,069
	345,552	329,745

3 OTHER REVENUE AND NET (LOSS)/INCOME

	2006	2005
	$'000	$'000
Other revenue		
Commission income	**2,882**	2,253
Interest income	**299**	296
Operating lease rental income in respect of plant and machinery	**3,600**	1,290
Others	**1,417**	623
	8,198	4,462
Other net (loss)/income		
(Loss)/gain on disposal of property, plant and equipment	**(137)**	307

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4 OTHER OPERATING EXPENSES

	2006 **$'000**	2005 $'000
Impairment losses of property, plant and equipment (note (i))	**–**	86,834
Impairment losses for bad and doubtful debts (note (ii))	**–**	32,972
	–	119,806

Notes:

(i) During the year ended 31 December 2005, the directors conducted a review on the Group's plant and machinery used for the manufacture of compact disc products and other fixed assets and determined that a number of those assets were impaired, due to the idleness of the assets which were neither used by the Group for its manufacture process nor leased out for rentals. Accordingly, impairment losses of $86,834,000 were recognised in respect of these assets in such year. The recoverable amounts of the relevant assets were determined on the basis of their sale value by reference to quotations on the second hand market of similar plant and machinery.

(ii) During the year ended 31 December 2005, the directors assessed the recoverability of the Group's trade and other receivables and determined that impairment losses of bad and doubtful debts of $32,972,000 be made in the financial statements for such year. The impairment was made for those aged debtors who defaulted in the payment to the Group. The impairment amount was estimated by the directors as the shortfall of the present value of estimated future cash flows of the relevant debts discounted at the effective rate computed at initial recognition over the carrying value of debtors.

5 PROFIT/(LOSS) BEFORE TAXATION

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

		2006 $'000	2005 $'000
(a)	Finance costs:		
	Interest on bank and other borrowings wholly repayable within five years	**14,959**	11,217
	Interest on other borrowings	**342**	102
	Finance charges on obligations under finance leases	**1,650**	1,492
	Bank charges	**2,042**	1,720
	Loss on redemption of the Notes (note 24)	**3,407**	–
	Net exchange loss	**542**	870
	Other borrowing costs	**310**	–
		23,252	15,401
(b)	Staff costs:		
	Contributions to defined contribution retirement plan	**890**	757
	Share-based payment expenses	**–**	4,400
	Salaries, wages and other benefits	**51,528**	43,973
		52,418	49,130
(c)	Other items:		
	Amortisation of intangible assets	**5,055**	4,560
	Depreciation		
	– owned assets	**10,361**	13,635
	– assets held under finance leases	**5,047**	3,725
	Auditors' remuneration	**1,931**	2,450
	Operating leases charges: minimum lease payments		
	– hire of properties	**7,917**	6,338
	Cost of inventories #	**233,449**	259,422

Cost of inventories includes $42,880,000 (2005: $41,969,000 relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006 $'000	2005 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**3,800**	901
Over-provision in respect of prior years	**(347)**	–
	3,453	901
Current tax – outside Hong Kong		
Provision for the year	**629**	224
(Over)/under-provision in respect of prior years	**(23)**	82
	606	306
Deferred tax		
Origination and reversal of temporary differences	**723**	–
	4,782	1,207

The provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Two of the Group's subsidiaries in the People's Republic of China ("PRC"), namely 深圳利滿豐源打印耗材有限公司 (Shenzhen Afex Print Image Ltd) ("SZ Afex") and 珠海利滿豐源打印耗材有限公司 (Zhuhai Afex Print Image Ltd) ("ZH Afex") are entitled to certain income tax holidays under which these subsidiaries are fully exempted from the PRC income tax for the first two profitable years and entitled to 50% exemption from the PRC income tax rate for further three years. Accordingly, SZ Afex was fully exempted from the PRC income tax in 2005 and 2006 and will be subject to the PRC income tax at the reduced rate of 7.5% for 2007, 2008 and 2009 and thereafter at the applicable tax rate of 15%. As ZH Afex sustained tax losses for the PRC income tax purposes since its date of establishment to 31 December 2006, the income tax holiday period of this entity has not yet commenced.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(a) Taxation in the consolidated income statement represents: *(continued)*

On 16 March 2007, the Tenth National People's Congress plenary session in the PRC passed the Enterprise Income Tax Law ("New PRC Tax Law") that imposes a single uniform income tax rate of 25% for most enterprises in the PRC excluding Hong Kong. The New PRC Tax Law will be effective as of 1 January 2008. The New PRC Tax Law contemplates various transition periods and measures for existing preferential tax policies and empowers the PRC State Council to enact appropriate implementing rules. Consequently, the Group currently cannot assess the impact of the New PRC Tax Law on its deferred tax assets and liabilities.

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

	2006	2005
	$'000	$'000
Profit/(loss) before taxation	**69,747**	(134,012)
Notional tax on profit/(loss) before taxation calculated at 17.5%	**12,206**	(23,452)
Tax effect of non-deductible expenses	**2,364**	13,777
Tax effect of non-taxable income	**(7,012)**	(1,300)
Tax effect of utilisation of tax losses not recognised in prior years	**(491)**	–
Tax effect of unused tax losses not recognised	**–**	12,444
(Over)/under-provision in prior years	**(370)**	82
Tax effect of income tax holidays of subsidiaries outside Hong Kong	**(1,717)**	–
Effect of tax rate differential of subsidiaries outside Hong Kong	**(198)**	(66)
Others	**–**	(278)
Actual tax expense	**4,782**	1,207

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7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors Fees $'000	Salaries, allowances and benefits in kind $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments $'000	Total $'000
Year ended 31 December 2006						
Ho Yin King, Helena	**–**	**4,728**	**12**	**4,740**	**–**	**4,740**
Ho Fai Keung, Jacky	**–**	**3,048**	**12**	**3,060**	**–**	**3,060**
Low Nyap Heng	**–**	**2,437**	**–**	**2,437**	**–**	**2,437**
Cheung Sze Ming	**–**	**1,428**	**12**	**1,440**	**–**	**1,440**
Lo Suk King	**–**	**948**	**12**	**960**	**–**	**960**
Li Sau Hung, Eddy	**200**	**–**	**–**	**200**	**–**	**200**
Leung Ka Kui, Johnny	**200**	**–**	**–**	**200**	**–**	**200**
Chan Kam Kwan, Jason	**200**	**–**	**–**	**200**	**–**	**200**
	600	**12,589**	**48**	**13,237**	**–**	**13,237**

	Directors Fees $'000	Salaries, allowances and benefits in kind $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments (note) $'000	Total $'000
Year ended 31 December 2005						
Ho Yin King, Helena	–	4,068	12	4,080	660	4,740
Ho Fai Keung, Jacky	–	2,388	12	2,400	660	3,060
Low Nyap Heng	–	1,476	–	1,476	660	2,136
Cheung Sze Ming	–	969	8	977	660	1,637
Lo Suk King	–	632	8	640	–	640
Li Sau Hung, Eddy	200	–	–	200	220	420
Leung Ka Kui, Johnny	200	–	–	200	220	420
Chan Kam Kwan, Jason	200	–	–	200	220	420
	600	9,533	40	10,173	3,300	13,473

Note: The 2005 amounts represented the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options was measured according to the Group's accounting policy for share-based payment transactions as set out in note 1(o)(ii).

Details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "share option scheme" in the directors' report and note 26.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2005: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other one (2005: one) individual are as follows:

	2006 **$'000**	2005 $'000
Salaries and other emoluments	**1,128**	1,488
Retirement scheme contributions	**12**	12
	1,140	1,500

The emoluments of the one (2005: one) individual with the highest emoluments are within the following bands:

$	**2006** **Number of** **individuals**	2005 Number of individuals
1,000,001 – 1,500,000	**1**	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $39,654,000 (2005: loss of $6,080,000) which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

No payment of dividends has been proposed by the board of directors of the Company in respect of the year ended 31 December 2006 (2005: Nil).

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(Expressed in Hong Kong dollars)

11 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company of $64,965,000 (2005: loss of $135,219,000) and the weighted average of 687,462,817 ordinary shares (2005: 684,047,216 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2006	2005
Issued ordinary shares at 1 January	**687,462,817**	458,308,545
Effect of new shares issue (note 28(c)(ii))	**–**	225,738,671
Weighted average number of ordinary shares at 31 December	**687,462,817**	684,047,216

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share for the year ended 31 December 2006 is based on the profit attributable to ordinary equity shareholders of the Company of $64,965,000 and the weighted average of 699,335,821 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares calculated as follows:

Weighted average number of ordinary shares (diluted)

	2006 Number of shares
Weighted average number of ordinary shares at 31 December	**687,462,817**
Effect of deemed issued of ordinary shares in relation to warrants issued	**11,681,883**
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	**191,121**
Weighted average number of ordinary shares (diluted) at 31 December	**699,335,821**

Diluted loss per share for the year ended 31 December 2005 was not presented as there were no dilutive potential ordinary shares outstanding during such year.

12 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.

Business segments

For management purposes, the Group is currently organised into three operating divisions – the remanufacture and sale of computer printing and imaging products, the manufacture and sale of data media products and the distribution and sale of data media products. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these business segments is presented below.

	Remanufacture and sale of computer printing and imaging products $'000	Manufacture and sale of data media products $'000	Distribution and sale of data media products $'000	Inter-segment elimination $'000	Unallocated $'000	Consolidated $'000
Year ended 31 December 2006						
Revenue from external customers	133,097	105,573	106,882	–	–	345,552
Inter-segment revenue	–	11,904	–	(11,904)	–	–
Total	133,097	117,477	106,882	(11,904)	–	345,552
Segment result	58,018	22,063	18,180	–	–	98,261
Unallocated operating income and expenses						(52,318)
Profit from operations						45,943
Finance costs						(23,252)
Gain from a legal claim						47,056
Profit before taxation						69,747
Income tax						(4,782)
Profit after taxation						64,965
Depreciation and amortisation	10,802	8,834	64	–	763	20,463

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12 SEGMENT REPORTING *(continued)*

Business segments *(continued)*

	Remanu-facture and sale of computer printing and imaging products $'000	Manufacture and sale of data media products $'000	Distribution and sale of data media products $'000	Inter-segment elimination $'000	Unallocated $'000	Consolidated $'000
Year ended 31 December 2005						
Revenue from external customers	98,786	126,890	104,069	–	–	329,745
Inter-segment revenue	–	20,228	–	(20,228)	–	–
Total	98,786	147,118	104,069	(20,228)	–	329,745
Segment result	4,271	(67,735)	(2,628)	–	–	(66,092)
Unallocated operating income and expenses						(52,519)
Loss from operations						(118,611)
Finance costs						(15,401)
Loss before taxation						(134,012)
Income tax						(1,207)
Loss after taxation						(135,219)
Depreciation and amortisation	9,754	10,496	292	–	1,378	21,920
Impairment losses of property, plant and equipment	3,735	82,647	–	–	452	86,834
Impairment losses for bad and doubtful debts	12,632	8,525	10,811	–	1,004	32,972

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12 SEGMENT REPORTING *(continued)*

Business segments *(continued)*

	Remanufacture and sale of computer printing and imaging products $'000	Manufacture and sale of data media products $'000	Distribution and sale of data media products $'000	Consolidated $'000
As at 31 December 2006				
Segment assets	196,442	128,961	61,667	387,070
Unallocated corporate assets				166,165
Total assets				553,235
Segment liabilities	30,752	7,160	28,424	66,336
Unallocated corporate liabilities				209,709
Total liabilities				276,045
Capital expenditures incurred during the year	16,822	4,513	–	21,335

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12 SEGMENT REPORTING *(continued)*

Business segments *(continued)*

	Remanufacture and sale of computer printing and imaging products $'000	Manufacture and sale of data media products $'000	Distribution and sale of data media products $'000	Consolidated $'000
As at 31 December 2005				
Segment assets	159,977	104,815	93,714	358,506
Unallocated corporate assets				166,525
Total assets				525,031
Segment liabilities	2,990	21,435	22,294	46,719
Unallocated corporate liabilities				269,903
Total liabilities				316,622
Capital expenditures incurred during the year	14,135	20,855	39	35,029

12 SEGMENT REPORTING *(continued)*

Geographical segments

The Group's operations are mainly located in the PRC including Hong Kong.

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

	2006	2005
	$'000	$'000
Revenue from external customers		
Asia Pacific		
– the PRC including Hong Kong	**205,173**	156,299
– other regions	**44,310**	59,468
Europe	**30,842**	46,677
North and South America	**55,314**	49,508
Others	**9,913**	17,793
	345,552	329,745
Segment assets		
Asia Pacific		
– the PRC including Hong Kong	**544,477**	505,815
– Other regions	**2,697**	6,093
Europe	**3,663**	6,377
North and South America	**2,398**	6,746
	553,235	525,031
Capital expenditures incurred during the year		
Asia Pacific		
– the PRC including Hong Kong	**21,335**	34,953
Europe	**–**	76
	21,335	35,029

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13 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Land and buildings held for own use carried at fair value $'000	Plant and machinery $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Total $'000
Cost or valuation:					
At 1 January 2005	15,002	414,179	80,399	4,644	514,224
Additions	–	22,434	2,292	477	25,203
Disposals	–	(3,880)	(187)	(551)	(4,618)
Revaluation adjustment	(263)	–	–	–	(263)
At 31 December 2005	14,739	432,733	82,504	4,570	534,546
Representing:					
Cost	–	432,733	82,504	4,570	519,807
Valuation – 2005	14,739	–	–	–	14,739
	14,739	432,733	82,504	4,570	534,546
At 1 January 2006	14,739	432,733	82,504	4,570	534,546
Additions	–	6,705	862	–	7,567
Disposals	–	(28,022)	–	(390)	(28,412)
Disposals of subsidiaries	–	(15,511)	(3,211)	(318)	(19,040)
Revaluation adjustment	869	–	–	–	869
At 31 December 2006	**15,608**	**395,905**	**80,155**	**3,862**	**495,530**
Representing:					
Cost	–	395,905	80,155	3,862	479,922
Valuation – 2006	15,608	–	–	–	15,608
	15,608	395,905	80,155	3,862	495,530

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) The Group *(continued)*

	Land and buildings held for own use carried at fair value $'000	Plant and machinery $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Total $'000
Accumulated amortisation and depreciation:					
At 1 January 2005	–	256,803	54,428	3,473	314,704
Charge for the year	322	12,680	4,027	331	17,360
Impairment loss	–	79,280	7,525	29	86,834
Written back on disposals	–	(3,224)	(172)	(551)	(3,947)
Elimination on revaluation	(322)	–	–	–	(322)
At 31 December 2005	–	345,539	65,808	3,282	414,629
At 1 January 2006	–	345,539	65,808	3,282	414,629
Charge for the year	348	10,666	3,991	403	15,408
Written back on disposals	–	(22,806)	–	(233)	(23,039)
Written back on disposals of subsidiaries	–	(7,788)	(2,558)	(118)	(10,464)
Elimination on revaluation	(348)	–	–	–	(348)
At 31 December 2006	**–**	**325,611**	**67,241**	**3,334**	**396,186**
Net book value:					
At 31 December 2006	**15,608**	**70,294**	**12,914**	**528**	**99,344**
At 31 December 2005	14,739	87,194	16,696	1,288	119,917

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13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(b) The Group's leasehold land and buildings held for own use were revalued as at 31 December 2006 at their open market value by reference to recent market transactions in comparable properties. The relevant valuations were performed by independent professional valuers, Great China Appraisal Limited and Jointgoal Surveyors Limited with recent experience in the location and category of properties being valued.

The revaluation surpluses of $1,217,000 (2005: $59,000), net of deferred taxation of $67,000 (2005: $nil) (note 27(b)) have been transferred to the properties revaluation reserve of the Group (note 28).

Had these properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been:

	The Group	
	2006	2005
	$'000	$'000
Leasehold land and buildings held for own use carried at cost less accumulated depreciation	**9,532**	9,903

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

	The Group	
	2006	2005
	$'000	$'000
In Hong Kong		
– medium-term leases	**15,000**	13,900
Outside Hong Kong		
– short-term leases	**608**	839
	15,608	14,739
Representing:		
Leasehold land and buildings held for own use carried at fair value	**15,608**	14,739

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(d) Property, plant and equipment held under finance leases

The Group leases production plant and machinery under finance leases with an average lease term of 3 years. None of the leases includes contingent rentals. During the year, additions to plant and machinery of the Group financed by new finance leases amounted to $5,655,000 (2005: $23,907,000). At the balance sheet date, the net book value of plant and machinery held under finance leases of the Group was $27,720,000 (2005: $63,352,000).

(e) Property, plant and equipment leased out under operating leases

The Group leases out certain items of plant and machinery under operating leases. The leases typically run for an initial period of 2 years, with an option to renew the lease when all terms are renegotiated. Lease payments are fixed throughout the lease period. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2006	2005
	$'000	$'000
Within 1 year	**2,310**	2,520
After 1 year but within 5 years	**–**	2,310
	2,310	4,830

(f) As at 31 December 2006, certain of the Group's property, plant and equipment previously used for the manufacture of compact disc products under the "Manufacture and sale of data media products" division, with carrying value totalling $18,090,000 (2005: $26,224,000) were held for sale.

(g) As at 31 December 2006, certain of the Group's leasehold land and buildings with net book value of $15,000,000 (2005: $13,900,000) was pledged as security for certain bank borrowings granted to the Group (note 22).

14 INTANGIBLE ASSETS

	Development costs $'000	Technical know-how $'000	Distribution rights $'000	Total $'000
Cost:				
At 1 January 2005	15,831	5,460	8,519	29,810
Additions through internal development	9,826	–	–	9,826
At 31 December 2005	25,657	5,460	8,519	39,636
Additions through internal development	13,768	–	–	13,768
Eliminated upon disposal of subsidiaries	–	–	(8,519)	(8,519)
At 31 December 2006	**39,425**	**5,460**	**–**	**44,885**
Accumulated amortisation:				
At 1 January 2005	129	455	655	1,239
Charge for the year	2,157	1,092	1,311	4,560
At 31 December 2005	2,286	1,547	1,966	5,799
Charge for the year	2,762	1,092	1,201	5,055
Eliminated upon disposal of subsidiaries	–	–	(3,167)	(3,167)
At 31 December 2006	**5,048**	**2,639**	**–**	**7,687**
Net book value:				
At 31 December 2006	**34,377**	**2,821**	**–**	**37,198**
At 31 December 2005	23,371	3,913	6,553	33,837

Development costs are amortised on a straight line basis over ten years from the date of commencement of production of the relevant products.

Technical know-how is amortised on a straight line basis over the terms of the technical know-how consultancy agreement of five years.

14 INTANGIBLE ASSETS *(continued)*

Distribution rights are amortised on a straight line basis over the remaining term of the distribution agreement.

The amortisation charge for the year is included in "cost of sales" and "administrative expenses" in the consolidated income statement.

15 GOODWILL

	The Group
	$'000
Amortised cost:	
At 1 January 2005, 31 December 2005 and 31 December 2006	39,545

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to business segment as follows:

	2006	2005
	$'000	$'000
Distribution and sale of data media products	**39,545**	39,545

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15 GOODWILL *(continued)*

The recoverable amount of the CGU is determined based on value-in-use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2006	2005
Gross margin	**9.6%**	8.3%
Growth rate	**5%**	10%
Discount rate	**8%**	5%

Management determined the budgeted gross margin based on past performance and its expectation for market development. The growth rate is estimated by management after taking into consideration the industry growth forecast. The discount rate used is pre-tax and reflect specific risks relating to the relevant segment. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the cash generating unit to exceed the aggregate recoverable amount of the cash generating unit.

16 INVESTMENTS IN SUBSIDIARIES

	2006 **$'000**	2005 $'000
Unlisted shares, at cost	**39,172**	39,172

(Expressed in Hong Kong dollars)

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of subsidiary	Place/ country of incorporation and operation (Note (b))	Issued and paid up share capital/ registered capital	Percentage of ownership interest held by the Group (Note (a))	Principal activities
Afex International (HK) Limited	Hong Kong	50,000 ordinary shares of $1 each	100	Trading of computer printing and imaging products
Clearview Development Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	100	Investment holding
Feitian Magnetic Information-Technology (Shenzhen) Co., Ltd. (Note (c))	The PRC	US$2,500,000	100	Manufacture of data media products
Fortune Luck Development Ltd.	British Virgin Islands	4 ordinary shares of US$1 each	100	Distribution of data media products
Great China Global Limited	British Virgin Islands	1 ordinary share of US$1 each	100	Distribution of data media products
Havenport Management Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	100	Investment holding
Jackin Trading Company Limited	British Virgin Islands	1 ordinary of share US$1	100	Trading of data media products

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(Expressed in Hong Kong dollars)

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place/ country of incorporation and operation (Note (b))	Issued and paid up share capital/ registered capital	Percentage of ownership interest held by the group (Note (a))	Principal activities
Jackin Magnetic Company Limited	Hong Kong	10 ordinary shares of $100 each and 10,000 non-voting deferred shares of $100 (Note (d))	100	Trading of data media products
Jackin Manufacturing (Shenzhen) Limited	British Virgin Islands	1 ordinary share of US$1	100	Investment holding
Jackin Optical Marketing Company Limited	Hong Kong	2 ordinary shares of $1 each	100	Trading of data media products
Jackin Total Fulfilment Services Limited	Hong Kong	2 ordinary shares of $1 each	100	Inactive
Jackin U.S.A. Inc.	United States of America	1 ordinary share of US$1	100	Sale and marketing office
Jackin Video Cassette Co. Limited	Hong Kong	1,000 ordinary shares of $1 each and 1,000,000 non-voting deferred shares of $1 each (Note (d))	100	Property holding
Jackin Video Cassette (Taiwan) Limited	Taiwan	2,000,000 ordinary shares of NT$10 each	99.9	Property holding

(Expressed in Hong Kong dollars)

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place/ country of incorporation and operation (Note (b))	Issued and paid up share capital/ registered capital	Percentage of ownership interest held by the group (Note (a))	Principal activities
Noble Team Holdings Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	100	Investment holding
Oakview International Limited	British Virgin Islands	100 ordinary shares of US$1 each	100	Investment holding
Prince Diamond Co., Ltd.	British Virgin Islands	2 ordinary shares of US$1 each	100	Investment holding
深圳利滿豐源打印耗材有限公司 (Shenzhen Afex Print Image Ltd) (Note (c))	The PRC	$5,000,000	100	Remanufacture of computer printing and imaging products
Tempair Developments Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	100	Investment holding
Ugent Holdings Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	100	Investment holding
珠海利滿豐源打印耗材有限公司 (Zhuhai Afex Print Image Ltd) (Note (c))	The PRC	$5,000,000	100	Remanufacture of computer printing and imaging products

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16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

(a) Except Oakview International Limited, which is directly owned by the Company, all other subsidiaries are indirectly held.

(b) Other than those subsidiaries incorporated in the British Virgin Islands, whose place of operations are basically in Hong Kong, the places of operations of all other subsidiaries are the same as their places of incorporation.

(c) These subsidiaries are wholly foreign-owned enterprises established in the PRC.

(d) The Company holds 100% of the issued ordinary share capital only. The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

17 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2006	2005
	$'000	$'000
Raw materials	**75,649**	35,407
Work in progress	**3,730**	6,164
Finished goods	**49,579**	31,622
	128,958	73,193

17 INVENTORIES *(continued)*

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

	The Group	
	2006	2005
	$'000	$'000
Carrying amount of inventories sold	**232,610**	257,423
Write down of inventories	**839**	1,999
	233,449	259,422

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Trade receivables	**94,831**	122,680	**–**	–
Amount receivable from debts assignment *(note)*	**34,931**	–	**–**	–
Amounts due from disposed subsidiaries *(note 29)*	**33,773**	–	**–**	–
Amount receivable under legal claim *(note 30)*	**46,586**	102,110	**–**	–
Other deposits, prepayments and other receivables	**23,717**	12,583	**198**	145
Amounts due from subsidiaries	**–**	–	**240,443**	172,730
	233,838	237,373	**240,641**	172,875

Note: In order to facilitate the Group's treasury management, in November 2006 the Group assigned certain trade debtors with book carrying value totalling $38,812,000 to an independent third party (the "Assignee") at a consideration of $34,931,000. The consideration is agreed to be paid by the Assignee through equal quarterly instalments of approximately $5,822,000 scheduled during February 2007 to May 2008.

18 TRADE AND OTHER RECEIVABLES *(continued)*

Trade and other receivables includes a balance of $22,902,000 (2005: nil) which is expected to be recovered after more than one year. All of the other trade and other receivables are expected to be recovered within one year.

Amounts due from subsidiaries are unsecured, interest free and repayable on within one year.

Included in trade and other receivables are trade receivables 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
1 to 3 months	**66,249**	88,568
4 to 6 months	**17,507**	12,500
7 to 9 months	**7,771**	725
10 to 12 months	**1,845**	3,745
Over 1 year	**1,459**	17,142
	94,831	122,680

The Group's credit policy is set out in note 31(a).

18 TRADE AND OTHER RECEIVABLES *(continued)*

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

	The Group		The Company	
	2006	2005	**2006**	2005
	’000	’000	**’000**	’000
United States Dollars	**USD 8,321**	USD 6,455	**USD –**	USD –

19 PLEDGED DEPOSIT

Pledged deposit at 31 December 2005 represented a cash balance pledged with a bank as security for a bank guarantee issued to a PRC court in respect of a legal claim.

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	$’000	$’000	**$’000**	$’000
Deposits with banks and other financial institutions	**3,010**	18	**–**	–
Cash at bank and in hand	**11,342**	19,958	**78**	67
Cash and cash equivalents in the balance sheet	**14,352**	19,976	**78**	67
Bank overdrafts *(note 22)*	**(11,099)**	(15,720)		
Cash and cash equivalents in the consolidated cash flow statement	**3,253**	4,256		

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20 CASH AND CASH EQUIVALENTS *(continued)*

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
United States Dollars	**USD 608**	USD 178	**USD –**	USD –
Renminbi	**RMB 1,966**	RMB 4,946	**RMB –**	RMB –
Euro	**EUR 220**	EUR 9	**EUR –**	EUR –
Great British Pounds	**GBP 180**	GBP 179	**GBP –**	GBP –

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Trade payables	**49,086**	41,139	**–**	–
Accruals and other payables	**23,186**	36,879	**6,157**	4,833
Amounts due to subsidiaries	**–**	–	**29,810**	5,625
	72,272	78,018	**35,967**	10,458

Amounts due to subsidiaries are unsecured, interest free and repayable on demand.

21 TRADE AND OTHER PAYABLES *(continued)*

Included in trade and other payables are trade payables and bills payable with the following ageing analysis as of the balance sheet date.

	The Group	
	2006	2005
	$'000	$'000
1 to 3 months	**37,772**	33,297
4 to 6 months	**9,003**	4,253
7 to 9 months	**2,044**	472
10 to 12 months	**194**	97
Over 1 year	**73**	3,020
	49,086	41,139

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

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
United States Dollars	**USD 5,820**	USD 3,757	**USD –**	USD –

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22 BANK AND OTHER BORROWINGS

As at 31 December 2006, the bank and other borrowings were analysed as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Bank loans and overdrafts				
Import and export loans	**136,323**	136,220	**–**	–
Term loans	**14,955**	44,574	**–**	–
Mortgage loans	**4,929**	5,786	**–**	–
Overdrafts *(note 20)*	**11,099**	15,720	**188**	98
	167,306	202,300	**188**	98
Other loans	**15,250**	6,630	**–**	–
	182,556	208,930	**188**	98

At 31 December 2006, the bank and other borrowings were repayable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Within 1 year or on demand	**167,029**	197,486	**188**	98
After 1 year but within 2 years	**12,313**	6,167	**–**	–
After 2 years but within 5 years	**2,571**	3,777	**–**	–
After 5 years	**643**	1,500	**–**	–
	15,527	11,444	**–**	–
	182,556	208,930	**188**	98

22 BANK AND OTHER BORROWINGS *(continued)*

At 31 December 2006, the bank and other borrowings were secured as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Secured	**4,929**	5,786	**–**	–
Unsecured	**177,627**	203,144	**188**	98
	182,556	208,930	**188**	98

At 31 December 2006, the mortgage loans of the Group were secured over certain of its leasehold properties *(note 13(g))*.

Other loans are unsecured and interest bearing at prevailing market rates.

All of the Group's banking facilities are subject to the fulfilment of certain covenants 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 31(b). As at 31 December 2006, none of the covenants relating to drawn down facilities had been breached (2005: $nil).

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

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
United States Dollars	**USD 4,837**	USD 4,059	**USD –**	USD –
Renminbi	**RMB 1,891**	RMB 8,968	**RMB –**	RMB –

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23 OBLIGATIONS UNDER FINANCE LEASES

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

The Group

	2006		2005	
	Present value of the minimum lease payments $'000	**Total minimum lease payments $'000**	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	**11,455**	**12,902**	16,605	17,798
After 1 year but within 2 years	**3,354**	**3,856**	9,028	9,514
After 2 years but within 5 years	**–**	**716**	2,329	2,491
	3,354	**4,572**	11,357	12,005
	14,809	**17,474**	27,962	29,803
Less: Total future interest expense		**(2,665)**		(1,841)
Present value of lease obligations		**14,809**		27,962

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

24 UNSECURED NOTES AND UNLISTED WARRANTS

Pursuant to several subscription agreements (the "Subscription Agreements") entered into between a wholly owned subsidiary of the Company ("the "Issuer") and certain independent third parties (the "Subscribers") on 28 December 2005, the Issuer issued, and the Subscribers subscribed for, notes (the "Notes") in the aggregate principal of $25 million on 24 March 2006. The Notes were unsecured and carried interest at a fixed rate of 10% per annum and repayable by 23 March 2009. The Subscription Agreements and the supplementary amendments also provided that upon the receipt by the Group of the proceeds from the Award *(note 30)* up to the aggregate principal amount of the Notes outstanding together with interest thereon from time to time, the Issuer should within 30 days redeem the Notes. Accordingly, the Issuer redeemed the Notes in full in June 2006 and a loss on redemption of $3,407,000 was recognised in profit or loss for the year.

24 UNSECURED NOTES AND UNLISTED WARRANTS *(continued)*

As at 31 December 2005, trade and other payables included deposits received from certain of the Subscribers amounting to $10,676,000 and bank and other borrowings included an unsecured loan from one of the Subscribers amounting to $6,630,000. As agreed with the relevant Subscribers, the above balances were settled in full by conversion into an equivalent amount of the principal under the Notes in 2006.

In addition, on 24 March 2006, pursuant to the Subscription Agreements, the Company issued, at zero consideration, to the Subscribers 137,484,000 unlisted warrants (the "Warrants") of the Company conferring rights entitling the holders to subscribe for up to $17,872,920 in aggregate in cash for 137,484,000 new shares of $0.1 each of the Company at an initial subscription price of $0.13 per share. The Warrants are exercisable within a period of three years from 24 March 2006 to 23 March 2009.

The Notes and the Warrants were deemed to be compound financial instruments and have been accounted for in accordance with accounting policy set out in note 1(l), including the recognition of fair value attributable to the equity component of the financial instruments amounting to $2,800,000 *(note 28)*.

As at 31 December 2006, none of the Warrants was exercised.

Subsequent to the balance sheet date, 40,000,000 Warrants were exercised to subscribe for 40,000,000 new shares of $0.1 each of the Company in April 2007.

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25 EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

The employees of the Company's subsidiaries in other jurisdictions are members of state-managed retirement benefits schemes operated by the government of the respective jurisdictions. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits schemes. The only obligation of the Group with respect of the retirement benefits schemes is to make the specified contributions.

During the year, the Group made retirement benefits scheme contributions totalling $890,000 (2005: $757,000). At the balance sheet date, there are no forfeited contributions.

26 EQUITY SETTLED SHARE-BASED COMPENSATIONS FOR EMPLOYEES

The Company has a share option scheme which was adopted on 12 June 2004 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nominal consideration to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the scheme shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the scheme, unless the Company obtains an approval from its shareholders. Notwithstanding this, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the scheme shall not exceed 30% of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to any individual in any 12-month period shall not exceed 1% of the total number of shares in issue at any point in time, without prior approval from the Company's shareholders. Options granted to any individual who is a substantial shareholder of the Company or independent non-executive director or any of their respective associates in the 12-month period up to and including date of such grant in excess of 0.1% of the Company's share capital at the date of grant or with a value in excess of $5 million must be approved in advance by the Company's shareholders.

(Expressed in Hong Kong dollars)

26 EQUITY SETTLED SHARE-BASED COMPENSATIONS FOR EMPLOYEES *(continued)*

Options granted must be taken up within 28 days of the date of grant upon payment of $1 per grant of option. Options may generally be exercised at any time during the period after the option has been granted, such period to expire not later than 10 years after the date of the grant of the option. The subscription price for shares will not be less than the higher of (i) the closing price of the Company's shares on the date of options granted; (ii) the average closing price of the Company's shares for the 5 business days immediately preceding the date of options granted; and (iii) the nominal value of the Company's share. There is no minimum period for which an option must be held before it can be exercised.

During the year ended 31 December 2005, 45,829,766 share options were granted by the Company under its share option scheme.

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

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 25 January 2005	34,365,138	–	10 years
Options granted to employees:			
– on 25 January 2005	11,464,628	–	10 years
Total share options	45,829,766		

(Expressed in Hong Kong dollars)

26 EQUITY SETTLED SHARE-BASED COMPENSATIONS FOR EMPLOYEES *(continued)*

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

	2006 Weighted average exercise price	**2006** Number of options	2005 Weighted average exercise price	2005 Number of options
Outstanding at the beginning of the period	**$0.158**	**45,829,766**	$1.020	11,637,000
Exercised during the period	**–**	**–**	–	–
Cancelled during the period	**–**	**–**	$1.020	(11,637,000)
Granted during the period	**–**	**–**	$0.158	45,829,766
Outstanding at the end of the period	**$0.158**	**45,829,766**	$0.158	45,829,766
Exercisable at the end of the period	**$0.158**	**45,829,766**	$0.158	45,829,766

The options outstanding at 31 December 2006 had an exercise price of $0.158 (2005: $0.158) and a weighted average remaining contractual life of 8.1 years (2005: 9.1 years).

Subsequent to the balance sheet date, 6,872,000 share options were exercised at the exercise price of $0.158 each to subscribe for 6,872,000 new shares of $0.1 each of the Company in March 2007.

26 EQUITY SETTLED SHARE-BASED COMPENSATIONS FOR EMPLOYEES *(continued)*

(c) Fair value of share options and assumptions

The Group measures the fair value of services received in return for share options granted by reference to the fair value of share options granted. The estimate of the fair value of the share options granted in the year ended 31 December 2005 was measured based on the Black-Scholes option pricing model. The inputs into the model were as follows:

	2005
Stock asset price	$0.1580
Exercise price	$0.1580
Expected volatility	72%
Expected life	5 years
Risk-free rate	2.801%
Expected dividend yield	0%

The expected volatility was based on the historical volatility of the Company's share price over the previous ten years. The expected life used in the model was adjusted, based on management best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

27 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2006	2005
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**3,800**	901
Provision for taxation outside Hong Kong	**500**	23
Balance of taxation provision/(recoverable) relating to prior years	**319**	(211)
	4,619	713

(b) Deferred tax assets and liabilities recognised:

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

	The Group			
Deferred tax arising from:	**Depreciation allowances in excess of the related depreciation**	**Tax losses**	**Revaluation of properties**	**Total**
	$'000	$'000	$'000	$'000
At 1 January 2005	2,215	(2,215)	999	999
Charged/(credited) to profit or loss	9,890	(9,890)	–	–
At 31 December 2005	12,105	(12,105)	999	999
At 1 January 2006	12,105	(12,105)	999	999
Charged to profit or loss	324	399	–	723
Charged to properties revaluation reserve	–	–	67	67
At 31 December 2006	**12,429**	**(11,706)**	**1,066**	**1,789**

27 INCOME TAX IN THE BALANCE SHEET *(continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $168,618,000 (2005: $171,424,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Part of the tax losses of $17,780,000 (2005: $17,824,000) attributable to certain subsidiaries in the PRC had an expiry period of five years. The remaining tax losses do not expire under the current tax legislation.

28 CAPITAL AND RESERVES

(a) The Group

	Share capital $'000	Share premium $'000	Capital reserve $'000	Properties revaluation reserve $'000	Exchange reserve $'000	Retained profits $'000	Total $'000
At 1 January 2005	45,830	113,225	1,863	4,288	1,262	152,330	318,798
Surplus on revaluation of properties	–	–	–	59	–	–	59
Exchange difference on translation of of financial statements of subsidiaries outside Hong Kong	–	–	–	–	(895)	–	(895)
Loss for the year	–	–	–	–	–	(135,219)	(135,219)
Issue of new shares *(Note (c) (ii))*	22,916	–	–	–	–	–	22,916
Share issue expenses	–	(1,650)	–	–	–	–	(1,650)
Issue of share options	–	–	4,400	–	–	–	4,400
At 31 December 2005	68,746	111,575	6,263	4,347	367	17,111	208,409
At 1 January 2006	68,746	111,575	6,263	4,347	367	17,111	208,409
Surplus on revaluation of properties	–	–	–	1,150	–	–	1,150
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	–	(134)	–	(134)
Profit for the year	–	–	–	–	–	64,965	64,965
Realisation upon disposal of a subsidiary *(note (d)(ii))*	–	–	(1,863)	(488)	–	2,351	–
Issue of the Notes and Warrants *(note 24)*	–	–	2,800	–	–	–	2,800
At 31 December 2006	**68,746**	**111,575**	**7,200**	**5,009**	**233**	**84,427**	**277,190**

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28 CAPITAL AND RESERVES *(continued)*

(b) The Company

	Share capital $'000	Share premium $'000	Contributed surplus $'000	Capital reserve $'000	Retained profits $'000	Total $'000
At 1 January 2005	45,830	113,225	15,048	–	7,869	181,972
Loss for the year	–	–	–	–	(6,080)	(6,080)
Issue of new shares *(note (c) (ii))*	22,916	–	–	–	–	22,916
Share issue expenses	–	(1,650)	–	–	–	(1,650)
Issue of share options	–	–	–	4,400	–	4,400
At 31 December 2005	68,746	111,575	15,048	4,400	1,789	201,558
At 1 January 2006	68,746	111,575	15,048	4,400	1,789	201,558
Profit for the year *(note 9)*	–	–	–	–	39,654	39,654
Issue of the Notes and Warrants *(note 24)*	–	–	–	2,800	–	2,800
At 31 December 2006	**68,746**	**111,575**	**15,048**	**7,200**	**41,443**	**244,012**

(c) Share capital

(i) Authorised and issued share capital

	2006 Number of shares '000	**2006** Amount $'000	2005 Number of shares '000	2005 Amount $'000
Authorised:				
Ordinary shares of $0.10 each	**1,000,000**	**100,000**	1,000,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January	**687,463**	**68,746**	458,309	45,830
Issue of new shares	**–**	**–**	229,154	22,916
At 31 December	**687,463**	**68,746**	687,463	68,746

(Expressed in Hong Kong dollars)

28 CAPITAL AND RESERVES *(continued)*

(c) Share capital *(continued)*

(i) Authorised and issued share capital (continued)

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.

(ii) Issue of new shares in 2005

On 3 December 2004, the Company announced a proposal to raise not less than approximately $22.9 million, before expenses, by issuing not less than 229,154,272 new shares but not more than 234,972,772 new shares by way of an open offer to its shareholders whose names appear on the register of members of the Company on 23 December 2004 at the subscription price of $0.10 per offer share on the basis of one offer share for every two existing shares held by the shareholders (the "Open Offer"). The Open Offer became unconditional on 10 January 2005 resulting in the issue of 229,154,272 offer shares on 12 January 2005.

(iii) Terms of unexpired and unexercised share options at the balance sheet date

Exercise period	Exercise price	2006 Number	2005 Number
25 January 2005 to 24 January 2015	$0.158	**45,829,766**	45,829,766

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 26 to the financial statements.

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(Expressed in Hong Kong dollars)

28 CAPITAL AND RESERVES *(continued)*

(c) Share capital *(continued)*

(iv) Terms of unexpired and unexercised warrants at the balance sheet date

Exercise period	Exercise price	**2006 Number**	2005 Number
24 March 2006 to 23 March 2009	$0.13	**137,484,000**	–

Each warrant entitles the holder to subscribe for one ordinary share in the Company. Further details of these warrants are set out in note 24 to the financial statements.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 40 of the Bermuda Companies Act 1981.

(ii) Capital reserve

Upon disposal of a subsidiary during 2006, the capital reserve attributable to such subsidiary of $1,863,000 was realised and transferred to retained profits.

(iii) Translation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(t).

28 CAPITAL AND RESERVES *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iv) Properties revaluation reserve

This reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 1(e).

(e) Distributability of reserves

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $175,266,000 (2005: $132,812,000).

The contributed surplus of the Company represented the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company at the time of the Group reorganisation prior to the listing of the Company's shares in 1994. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment be, unable to pay its liabilities as they become due; and (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

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29 DISPOSAL OF SUBSIDIARIES

In December 2006, the Group disposed of certain subsidiaries engaged in the manufacturing and sale of compatible inkjet cartridge products to an independent third party (the "Purchaser") at a cash consideration of $3,000,000. Such consideration was determined based on the net assets value of the disposed subsidiaries at the date of disposal and no material gain or loss arose from the disposal. In addition, as agreed, the Purchaser has guaranteed the repayment of certain debts due from the disposed subsidiaries to the Group totalling $33,773,000 (note 18). Such debts are agreed to be repaid through quarterly installment payments scheduled during March 2007 to June 2008. A charge has been effected on the shares in the disposed subsidiaries in favour of the Group as security for repayment of the debts.

The net assets of the disposed subsidiaries as at the date of disposal were as follows:

	$'000
Property, plant and equipment	8,576
Intangible assets	5,352
Inventories	8,814
Trade and receivables	17,948
Cash and cash equivalents	858
Trade and other payables	(1,513)
Bank and other borrowings	(2,763)
Obligations under finance leases	(499)
Amounts due to the Group	(33,773)
Net assets disposed of	3,000
Consideration received	
– satisfied in cash	3,000
Consideration received, satisfied in cash	3,000
Cash disposed of	(858)
Net cash inflow	2,142

30 GAIN FROM A LEGAL CLAIM

In 1997, a subsidiary of the Company (the "Subsidiary") entered into an agreement with a former customer, IBM Engineering Technology (Shanghai) Co. Ltd. ("IBMETC") under which the Subsidiary was required to set up a software manufacturing fulifillment plant in Shanghai, the PRC and IBMETC was obliged, among other things, to place annual minimum orders to the Subsidiary for the five years ended 31 December 2002. Should IBMETC fail to place the minimum orders, the Subsidiary was entitled to claim for the shortfall. During the two years ended 31 December 1999, the orders from IBMETC did not meet the minimum orders stipulated in the agreement and subsequently IBMETC unilaterally terminated the agreement in March 2000. The Group took arbitration proceedings in 2000 to claim against IBMETC for the total shortfall under the agreement totalling approximately US$54 million (approximately $420 million) and damages to be assessed.

The tribunal issued a partial award on the issue of liability on 18 July 2003. Pursuant to the partial award, the tribunal ruled that IBMETC has wrongfully purported to terminate the agreement and acted in repudiatory breach of the agreement. It was therefore a matter for the quantum hearing to assess how much IBMETC had to pay to the Subsidiary in terms of damages.

The quantum hearing completed in March 2005, and the final award (the "Award") was published on 30 July 2005. Damages and interest of US$12,507,700 (approximately $97,560,000) and US$2,853,139 (approximately $22,254,000) respectively were awarded by the tribunal in favour of the Subsidiary. The Award provided for payment of such sum (together with interest from the date of the Award at the prime rate of The Hongkong and Shanghai Banking Corporation Limited plus 0.5% compounded monthly until payment) to be made to the Subsidiary within 14 days upon receipt of the formal notice of Award by the parties' lawyers, which took place on 1 August 2005.

Following the publication of the Award made on 30 July 2005, the Subsidiary applied to the Shanghai First Intermediate People's Court (the "Shanghai Court") for enforcement of the Award against IBMETC. IBMETC subsequently applied to the Shanghai Court for non-enforcement of the Award, but the application was dismissed by the Shanghai Court on 7 April 2006. Based on the legal advice obtained by the Subsidiary in the PRC, the decision of the Shanghai Court on 7 April 2006 is final and conclusive. Thereafter, the Subsidiary received an aggregate sum of US$15,360,839 (approximately $118,776,000) as recovery in relation to the Award during the period from April to June 2006.

30 GAIN FROM A LEGAL CLAIM *(continued)*

In addition, the tribunal has issued a final costs award and an addendum on 14 December 2006 and 24 January 2007 respectively in favour of the Subsidiary in respect of its costs of the arbitration proceedings. Such award and addendum provided for payment by IBMETC of a sum of USD$4,613,512 (approximately $35,662,000) to the Subsidiary. Such sum was subsequently received by the Subsidiary after the balance sheet date.

As the outcome of the above legal claim has become final and conclusive, in 2006 the Group has recognised a gain of $47,056,000 from the compensations received and receivable under the legal claim, net of the attributable expenditures.

As at 31 December 2006, the Group had a balance of $46,586,000 (2005: $102,110,000) included in trade and other receivables in respect of the remaining compensation receivable from the legal claim (note 18). Such balance was subsequently settled in full after the balance sheet date.

31 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. Their receivables are generally due within 60 to 180 days from the date of billing. Debtors with balances that are more than two months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

31 FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

At the balance sheet date, the Group has a certain concentration of credit risk as 15% (2005: 11%) and 41% (2005: 28%) of the total trade and other receivables was due from the Group's largest debtor and five largest debtors respectively.

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

(b) Liquidity risk

The treasury and liquidity management of the Group is managed on a centralised basis. 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 adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Group has significant bank and other borrowings and is exposed to risk arising from changes in market interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk. The interest rates and maturity information of the Group's bank and other borrowings are disclosed below.

31 FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

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				
	Effective interest rate %	**Total $'000**	**One year or less $'000**	**1-2 years $'000**	**2-5 years $'000**
Repricing dates for assets/ (liabilities) which reprice before maturity					
Cash and cash equivalents	**2.50%**	**14,352**	**14,352**	**–**	**–**
Bank and other borrowings	**7.00%**	**(182,556)**	**(182,566)**	**–**	**–**
		(168,204)	**(168,204)**	**–**	**–**
Maturity dates for assets/(liabilities) which do not reprice before maturity					
Obligations under finance leases	**6.40%**	**(14,809)**	**(5,729)**	**(7,898)**	**(1,182)**

	2005				
	Effective interest rate %	Total $'000	One year or less $'000	1-2 years $'000	2-5 years $'000
Repricing dates for assets/ (liabilities) which reprice before maturity					
Cash and cash equivalents	2.50%	19,976	19,976	–	–
Bank and other borrowings	5.30%	(208,930)	(208,930)	–	–
		(188,954)	(188,954)	–	–
Maturity dates for assets/(liabilities) which do not reprice before maturity					
Pledged deposit	0.72%	1,190	1,190	–	–
Obligations under finance leases	5.90%	(27,962)	(3,432)	(15,407)	(9,123)
		(26,772)	(2,242)	(15,407)	(9,123)

31 FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

The Company

	2006		
	Effective interest rate %	**Total $'000**	**One year or less $'000**
Repricing dates for assets/ (liabilities) which reprice before maturity			
Cash and cash equivalents	**2.50%**	**78**	**78**
Bank and other borrowings	**8.50%**	**(188)**	**(188)**
		(110)	**(110)**

	2005		
	Effective interest rate %	Total $'000	One year or less $'000
Repricing dates for assets/ (liabilities) which reprice before maturity			
Cash and cash equivalents	2.50%	67	67
Bank and other borrowings	8.30%	(98)	(98)
		(31)	(31)

REUSE
REDUCE
RECYCLE

31 FINANCIAL INSTRUMENTS *(continued)*

(d) Foreign currency risk

The Group incurs foreign currency risk predominantly on sales to overseas customers which are generally denominated in United States dollars. The Group also incurs foreign currency risk on part of its purchases sourced from overseas suppliers which are primarily denominated in United States dollars. The Group reviews its foreign currency exposures regularly and does not consider its present foreign exchange risk to be significant.

However, the Group would consider hedging of its foreign currency exposures if its foreign exchange risk becomes significant.

In addition, the Group has significant sales to customers in the PRC. Although the sales are denominated in Hong Kong dollars, existing restrictions on the conversion of Renminbi into foreign currencies affect the ability of the PRC customers to convert Renminbi into foreign currencies, and any tightening of such restrictions could have an adverse effect on the Group.

(e) Fair values

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

32 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	$'000	$'000
Contracted for	**700**	–
Authorised but not contacted for	**6,140**	–
	6,840	–

(b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2006	2005
	$'000	$'000
Within 1 year	**6,414**	5,590
After 1 year but within 5 years	**8,625**	12,977
After 5 years	**–**	2,061
	15,039	20,628

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(c) **Production commitments**

In the ordinary course of its business, the Group entered into business affiliation agreements with certain major customers. Under these agreements, the Group is required to carry on certain minimum levels of production for the customers. A broad minimum production level is generally agreed annually and the specific production orders are agreed upon from time to time. The Group monitors its operations on an ongoing basis with a view to ensuring compliance with such requirements.

33 CONTINGENT ASSETS AND LIABILITIES

Financial guarantees issued

As at the balance sheet date, the Company has issued guarantees to certain banks in respect of banking facilities granted to certain wholly owned subsidiaries which remain in force so long as the subsidiaries have drawn down under the banking facilities .

The Company is also one of the entities covered by certain cross guarantee arrangements issued by the Company and certain of its wholly owned subsidiaries to certain banks in respect of banking facilities granted to the Group which remains in force so long as the Group has drawn down under the banking facilities. Under each of these guarantees, the Company and all the subsidiaries that are a party to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the above guarantees. The maximum liability of the Company at the balance sheet date under the guarantees is the aggregate amount of the facilities drawn down by the subsidiaries of $41,868,000 (2005: $50,360,000). The maximum liability of the Company at the balance sheet date under the cross guarantees is the aggregate amount of the facilities drawn down by all the subsidiaries that are covered by the cross guarantees, being $92,780,000 (2005: $148,740,000).

The Company has not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured and their transaction price was $nil.

34 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2006	2005
	$'000	$'000
Short-term employee benefits	**15,503**	13,251
Equity compensation benefits	**–**	3,300
	15,503	16,551

The total remuneration is included in "staff costs" (see *note 5(b)*).

35 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) In March and April 2007, certain of the share options and the Warrants of the Company were exercised by the relevant holders to subscribe for new shares of the Company, details of which are disclosed in notes 26 and 24 respectively.

(b) In March 2007, the PRC government enacted certain major changes in the PRC income tax law, details of which are disclosed in note 6.

(c) A writ of summons dated 10 February 2007 was filed against the Subsidiary by a law firm ("the plaintiff") formerly engaged by the Subsidiary claiming a sum of approximately $5,150,000, being the balance of legal costs owing to the plaintiff in respect of the arbitration proceedings undertaken by the Subsidiary as set out in note 30. An affirmation in opposition dated 14 March 2007 was filed by the Subsidiary against the claim based on, among others, the grounds that the plaintiff was negligent in conducting the arbitration and as a result, the Subsidiary suffered substantial loss and damages which the plaintiff should be liable to compensate the Subsidiary for the said loss and damages. While the legal proceedings are in the preliminary stage, based on the preliminary legal advice sought by the Subsidiary, the directors of the Company are of the view that the Subsidiary has a valid defence and counterclaim against the plaintiff. Accordingly, no provision for the claim and the associated legal costs has been made in the financial statements.

REUSE
REDUCE
RECYCLE

36 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 15, 24, 26 and 31 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of certain equity-settled share-based financial instruments and other financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of property, plant and equipment and intangible assets

The Group assesses annually whether property, plant and equipment and intangible assets have any indication of impairment in accordance with the relevant accounting policies. If such indication exists, the recoverable amounts of the assets would be determined by reference to value in use and net selling price. Value in use is determined using the discounted cash flow method. Due to the inherent risk associated with estimations in the timing and magnitude of the future cash flows and net selling prices, the estimated recoverable amount of the assets may be different from its actual recoverable amount and profit or loss could be affected by the accuracy of the estimations.

(b) Impairment of goodwill

The Group assesses annually the recoverable amount of goodwill with reference to value in use and net selling price. Value in use is determined using the discounted cash flow method and management is required to exercise judgement in assessing the key factors relevant to the future cash flows, including the expected life of the distribution rights held by the underlying CGU. Due to the inherent risk associated with estimations in the duration, timing and magnitude of the future cash flows and net selling prices, the estimated recoverable amount of goodwill may be different from its actual recoverable amount and profit or loss could be affected by accuracy of the estimations.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(c) Impairment of trade and other receivables

If circumstances indicate that the carrying amount of trade and other receivables may not be recoverable, the assets may be considered impaired and an impairment loss may be recognised. The carrying amounts of trade and other receivables are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. The recoverable amount of trade and other receivables is the estimated future cash flows discounted at the current market rate of return of similar assets. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount.

(d) Write down of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged inventories analyses, historical consumption trends and management experience and judgement. Based on this review, write down of inventories would be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market trend, actual sales may be different from estimation and profit or loss could be affected by the accuracy of this estimation.

(e) Provision for income tax

Provision for income tax is made based on the taxable income for the period as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretations of the relevant tax rules and regulations. The amount of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

(Expressed in Hong Kong dollars)

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

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

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 the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
HKFRS 8	Operating segments	1 January 2009
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
HK(IFRIC) 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) 9	Reassessment of embedded derivatives	1 June 2006
HK(IFRIC) 10	Interim financial reporting and impairment	1 November 2006
HK(IFRIC) 11	HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC) 12	Service concession arrangements	1 January 2008