Notes to the Financial Statements

1 GENERAL INFORMATION

Alltronics Holdings Limited (the "Company") was incorporated in the Cayman Islands on 24 July 2003 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 July 2005. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Company and its subsidiaries (together the "Group") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 17 June 2005. Following the completion of the public offering and placing of 90,000,000 shares of the Company as set out in the prospectus dated 30 June 2005 issued by the Company, the Company's shares were listed on the Main Board of the Stock Exchange on 15 July 2005 (the "Listing").

The Company is an investment holding company. The principal activities of the Group are the manufacturing and trading of electronic products, plastic moulds, plastic and other components for electronic products. Details of the activities of principal subsidiaries and an associate are set out in Notes 19 and 20 to the financial statements.

The principal place of business of the Company is at Room 1108, 11/F, Eastwood Centre, No. 5 A Kung Ngam Village Road, Shau Kei Wan, Hong Kong.

These consolidated financial statements have been approved for issue by the Board of Directors on 25 April 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Amendments to published standards effective and new/revised standards and interpretations which are relevant to the Group's operations and are mandatory in 2006:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts
HK(IFRIC) – Int 4	Determining Whether an Arrangement Contains a Lease

The adoption of new/revised HKAS 19 (Amendment), 21 (Amendment), 39 (Amendment), HKFRS 4 (Amendment) and HK(IFRIC) – Int 4 did not result in substantial changes to the accounting policies of the Group.

(b) New standards, amendments and interpretations relevant to the Group's operations that have been issued but are not yet effective for 2006 and have not been early adopted by the Group:

HKAS 1 (Amendment)	Presentation of Financial Statement – Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not in a position to state whether they will result in substantial changes to the accounting policies of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (see Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(c) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.6).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses (Note 2.7). The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the exchange reserve in equity.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(c) *Group companies* (Continued)

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings, are taken to shareholders' equity.

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly buildings, furniture and fixtures, office equipment, plant and machinery, leasehold improvements and motor vehicles. All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate costs to their residual values over their estimated useful lives, as follows:

Buildings	2% – 20% or over the lease terms, whichever is shorter
Furniture and fixtures	9% – 20%
Office equipment	8% – 20%
Plant and machinery	9% – 20%
Leasehold improvements	16.67% – 20%
Motor vehicles	9% – 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains, in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.7 Impairment of assets

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

2.8 Financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables with maturities of less than 12 months after the balance sheet date are classified as trade and other receivables in the balance sheet (Note 2.10).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(d) *Held-to-maturity financial assets*

The Group did not have any held-to-maturity financial assets as at both 31 December 2005 and 2006.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other (losses)/gains, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised as profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale financial assets are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.10.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Cash and cash equivalents

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

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are charged to the income statement in the year in which they are incurred.

2.14 Deferred income tax

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Deferred income tax (Continued)

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

2.15 Employee benefits

(a) *Pension obligations*

The Group operates defined contribution retirement schemes for its Hong Kong and PRC employees based on local laws and regulations. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit schemes' costs expensed in the income statement represent contributions paid or payable by the Group to the schemes.

The Group's contributions to the defined contribution retirement schemes in Hong Kong are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant local regulations in the PRC, the PRC subsidiaries of the Group participate in respective government retirement benefit schemes are required to contribute to the schemes to fund the retirement benefits of the eligible employees. Contributions made to the schemes are calculated based on certain percentages of the applicable payroll costs or fixed sums for each employee with reference to a salary scale, as stipulated under the requirements in the PRC. The Group has no further obligation beyond the required contributions. The contributions under the schemes are expensed in the income statement as incurred.

(b) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Employee benefits (Continued)

(c) *Bonus plans*

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.16 Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

2.18 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sale of goods*

Sale of goods is recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Leases

(a) *Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(b) *Finance lease*

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

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.21 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial assets and financial liabilities carried on the balance sheet include available-for-sale financial assets, financial assets at fair value through profit or loss, bank balances and cash, pledged bank deposits, trade receivable, deposits and other receivables, due from/(to) affiliate companies, bills payables, trade payables, trust receipts loans, bank overdraft and borrowings. The accounting policies on recognition and measurement of these items are disclosed in Note 2. Management identifies and evaluates financial risks in close co-operation with the Group's operating units. Because of the simplicity of the financial structure and the current operations of the Group, hedging activities were not taken by management.

(a) *Market risk*

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars and Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group has certain investments in the People's Republic of China (the "PRC") operations, whose net assets are exposed to foreign currency translation risk. The Group does not presently hedge this foreign exchange exposure.

To manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities, entities in the Group engage in transactions mainly in HK dollars, US dollars and Renminbi to the extent possible. The Group currently does not hedge transactions undertaken in Renminbi but manages its exposure through constant monitoring to limit as much as possible the amount of its Renminbi exposures. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The finance department of the Group is responsible for monitoring and managing the net position in each foreign currency.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) *Market risk* (Continued)

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities except its bank deposits, bills payable, finance lease liabilities and bank borrowings, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arose from bank balances and bank borrowings. The Group regularly seeks out the most favourable interest rates available for its bank deposits and bank borrowings. Information relating to interest rates of the Group's bank balances, deposits and bank borrowings are disclosed in Notes 27 and 32, respectively.

(iii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

(b) *Credit risk*

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. As at 31 December 2006, the Group's largest customer accounted for approximately 26% of total trade receivables (2005: 18%). This customer has an appropriate credit history and the Group does not consider there to be any significant credit risk in this regard.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the continuous growth in business, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

3.2 Fair value estimation

The fair value of available-for-sale financial assets that are not openly traded is determined with reference to indicative market values provided by the issuers (Note 21).

The carrying value less impairment provision of trade receivables and trade payables approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 18).

(b) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Estimated impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have suffered an impairment, in accordance with the accounting policy stated in Notes 2.5 and 2.7. The recoverable amounts of property, plant and equipment are determined based on value-in-use calculations. These calculations require the use of judgment and estimates.

(d) Estimated impairment provision for doubtful debts

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

(e) Estimated impairment provision for inventory

The Group makes provision for inventory based on consideration of obsolescence of raw materials and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventory and impairment provision in the year in which such estimate has been changed.

5 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of electronic products, plastic moulds, plastic and other components for electronic products.

	2006 HK$'000	2005 HK$'000
Turnover		
Sale of goods	**592,318**	316,903
Other income		
Interest income on other financial assets at fair value through profit or loss	**1,318**	473
Dividends from other financial assets at fair value through profit or loss	**14**	60
	593,650	317,436

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

(a) Primary reporting format – business segment

During the year, the Group has been operating in one single business segment, namely the manufacturing and trading of electronic products, plastic moulds, plastic and other components for electronic products.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Secondary reporting format – geographical segment

The Group's business segment operates in five main geographical areas, even though they are managed on a worldwide basis.

The Group's revenue arises mainly in places/countries within Hong Kong, the United States, Europe and PRC. Revenue is allocated based on the places/countries in which the customers are located.

Revenue

	2006	2005
	HK$'000	*HK$'000*
The United States	**406,798**	218,541
Europe	**39,245**	29,532
PRC	**25,297**	83
Hong Kong	**93,305**	49,178
Other countries	**27,673**	19,569
	592,318	316,903

Capital expenditure is allocated based on where the assets are located.

Capital expenditure

	2006	2005
	HK$'000	*HK$'000*
PRC	**18,977**	15,876
Hong Kong	**2,780**	452
	21,757	16,328

Total assets are allocated based on where the assets are located.

Total assets

	2006	2005
	HK$'000	*HK$'000*
PRC	**151,347**	130,542
Hong Kong	**193,936**	189,397
	345,283	319,939

6 EXPENSES BY NATURE

	2006 HK$'000	2005 HK$'000
Cost of inventories sold *(Note 22)*	**326,732**	184,442
Provision/(Reversal of provision) for impairment of inventories	**622**	(479)
Employee benefit expense – excluding Directors' emoluments *(Note 9)*	**83,977**	43,077
Employee benefit expense – Directors' emoluments *(Note 10)*	**9,083**	5,832
Depreciation *(Note 16)*		
– Owned fixed assets	**11,841**	6,845
– Leased fixed assets	**2,498**	357
Provision for impairment on receivables *(Note 23)*	**5,531**	–
Bad debts written-off	**1,370**	–
Amortisation of prepaid operating lease payments *(Note 17)*	**50**	50
Operating lease payments	**8,933**	4,526
Auditor's remuneration	**1,152**	862
Other expenses	**78,474**	34,915
Total cost of sales, distribution costs, and administrative expenses	**530,263**	280,427

7 OTHER (LOSSES)/GAINS

	2006 HK$'000	2005 HK$'000
Gain on disposals of other financial assets at fair value through profit or loss	**660**	1,993
Other financial assets at fair value through profit or loss – fair value gain/(loss)	**458**	(155)
Interest income on other financial assets at fair value through profit or loss	**1,318**	473
Dividends from other financial assets at fair value through profit or loss	**14**	60
Net foreign exchange loss	**(3,118)**	(1,218)
Loss on disposals of property, plant and equipment	**(25)**	(1,301)
Other (losses)/gains	**(307)**	653
	(1,000)	505

The interest and dividend income from other financial assets at fair value through profit or loss for the year ended 31 December 2006 and 31 December 2005 are derived from listed investments.

8 FINANCE COSTS – NET

	2006 HK$'000	2005 HK$'000
Interests on bank loans and bank overdrafts	**9,137**	3,279
Interest element of finance leases	**367**	36
Total finance costs	**9,504**	3,315
Less: Interest income from bank deposits	**(3,223)**	(1,091)
Finance costs – net	**6,281**	2,224

9 EMPLOYEE BENEFIT EXPENSE – EXCLUDING DIRECTORS' EMOLUMENTS

	2006 HK$'000	2005 HK$'000
Wages and salaries	**76,147**	40,381
Pension costs – defined contribution plans *(Note 11)*	**923**	576
Staff welfare and allowances	**6,046**	2,120
Share-based payment expenses	**861**	–
	83,977	43,077

10 EMPLOYEE BENEFIT EXPENSE – DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2006 is set out below:

Name	Fees	Salary	Discretionary bonuses	Other benefits*	Share-based payment expenses	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors							
Lam Yin Kee	–	2,061	650	960	359	12	4,042
Yeung Po Wah	–	646	500	–	358	12	1,516
Toshio Daikai	–	799	50	132	36	12	1,029
William Peter Shelley**	–	827	553	144	–	12	1,536
Non-executive Directors							
Fan Chung Yue, William	240	–	–	–	–	–	240
Barry John Buttifant	240	–	–	–	–	–	240
Leung Kam Wah	240	–	–	–	–	–	240
Yeung Chi Ying	240	–	–	–	–	–	240

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name	Fees	Salary	Discretionary bonuses	Other benefits*	Share-based payment expenses	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors							
Lam Yin Kee	–	1,900	–	960	–	12	2,872
Yeung Po Wah	–	598	–	–	–	12	610
Toshio Daikai	–	780	–	132	–	–	912
William Peter Shelley**	–	766	–	144	–	12	922
Non-executive Directors							
Fan Chung Yue, William	129	–	–	–	–	–	129
Barry John Buttifant	129	–	–	–	–	–	129
Leung Kam Wah	129	–	–	–	–	–	129
Yeung Chi Ying	129	–	–	–	–	–	129

* Other benefits represent quarters and housing allowances for the Directors.

** William Peter Shelley resigned as Director of the Group on 1 January 2007.

10 EMPLOYEE BENEFIT EXPENSE – DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005: two) individual during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**1,028**	1,650
Share-based payment expenses	**72**	–
Pension costs – defined contribution plan	**12**	24
Bonus	**100**	–
	1,212	1,674

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
Nil to HK$1,000,000	–	2
HK$1,000,001 – HK$1,500,000	**1**	–

11 PENSIONS – DEFINED CONTRIBUTION PLANS

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Hong Kong incorporated companies within the Group and their employees makes monthly contributions to the scheme at 5% of the employees' earnings up to a maximum of HK$1,000 per month per employee as defined under the Mandatory Provident Scheme Ordinances.

As stipulated by the rules and regulations in the PRC, the Group contributes to a state-sponsored retirement plan for its employees in the PRC as determined by the local governments, which is a defined contribution plan. The Group and its employees contribute approximately 8% and 5%, respectively, of the salary as specified by the relevant local governments, and the Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

For the year ended 31 December 2006, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately HK$971,000 (2005: HK$612,000). As at 31 December 2006, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions under the above schemes.

12 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2006 ***HK$'000***	2005 *HK$'000*
Current income tax		
– Hong Kong profits tax	**7,132**	6,366
– PRC enterprise income tax *(Note a)*	**2,052**	828
Under-provision in prior years	**28**	–
Deferred income tax *(Note 33)*	**227**	(184)
	9,439	7,010

12 INCOME TAX EXPENSE (Continued)

Note:

(a) PRC enterprise income tax has been calculated on the estimated assessable profits at the rates of taxation prevailing in the PRC. The Company has three subsidiaries operating in the PRC, namely Shenzhen Allcomm Electronic Co. Ltd. ("Shenzhen Allcomm"), Alltronics Tech. Mftg. Limited ("ATM") and 南盈塑膠實業（深圳）有限公司（「南盈」）. During the year, Shenzhen Allcomm, ATM and 南盈 are subject to a standard income tax rate of 15% in accordance with the relevant applicable tax laws. 南盈 is entitled to full exemption of PRC income tax for the two years ended 31 December 2005, followed by a 50% reduction of PRC income tax (i.e. 7.5%) for the three years ending 31 December 2008.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the Company's home country tax rate as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before share of loss of an associate	**54,774**	34,757
Calculated at a taxation rate of 17.5%	**9,585**	6,082
Effect of different taxation rates in other countries	**(19)**	(151)
Income not subject to taxation	**(1,312)**	(731)
Expenses not deductible for tax purposes	**1,323**	1,456
Under-provision in prior years	**28**	–
Tax losses for which no deferred income tax asset was recognised	**(157)**	–
Temporary differences not recognised	**(96)**	77
Others	**87**	277
	9,439	7,010

The weighted average applicable tax rate was 16.9% (2005: 17.1%). The decrease is caused by a change in the profitability of the Company's subsidiaries in the respective countries.

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$16,572,000 (2005: HK$7,448,000).

14 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the number of ordinary shares in issue during the year (Note 29).

	2006	2005
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**43,785**	26,935
Number of ordinary shares in issue (thousand)	**300,000**	300,000
Basic earnings per share (HK cents per share)	**14.60**	8.98

(b) Diluted

Diluted earnings per share is calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: share options. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**43,785**	26,935
Number of ordinary shares in issue (thousand)	**300,000**	300,000
Adjustments for share options (thousand)	**3,514**	–
Weighted average number of ordinary shares for diluted earnings per share (thousand)	**303,514**	300,000
Diluted earnings per share (HK cents per share)	**14.43**	8.98

15 DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim dividend paid of HK3.2 cents (2005: HK2 cents) per ordinary share	**9,600**	6,000
Special interim dividend paid of HK$nil (2005: HK1.5 cents) per ordinary share *(Note a)*	**–**	4,500
Proposed final dividend of HK3.8 cents (2005: HK1.5 cents) per ordinary share *(Note b)*	**11,400**	4,500
	21,000	15,000

Notes:

(a) In recognition of the continued support from the shareholders and the successful listing of the Company's share on the Main Board of the Stock Exchange on 15 July 2005, the Board declared and paid a special interim divided of HK1.5 cents per ordinary share for the year ended 31 December 2005.

(b) A final dividend in respect of 2006 of HK3.8 cents per share, amounting to a total of HK$11,400,000, is to be proposed at the 2007 Annual General Meeting on 23 May 2007. These financial statements do not reflect this dividend payable but account for it as proposed dividends in reserves.

16 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Furniture and fixtures	Office equipment	Plant and machinery	Leasehold improvements	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005							
Cost, as previously reported	11,008	6,575	7,232	15,980	14,132	4,294	59,221
Reclassification to land use rights *(Note 17)*	(2,427)	–	–	–	–	–	(2,427)
Cost, as restated	8,581	6,575	7,232	15,980	14,132	4,294	56,794
Accumulated depreciation	(1,041)	(4,000)	(4,319)	(8,205)	(7,576)	(2,173)	(27,314)
Reclassification to land use rights *(Note 17)*	155	–	–	–	–	–	155
Net book amount, as restated	7,695	2,575	2,913	7,775	6,556	2,121	29,635
Year ended 31 December 2005							
Opening net book amount, as restated	7,695	2,575	2,913	7,775	6,556	2,121	29,635
Exchange differences	–	37	25	37	48	8	155
Acquisition of a subsidiary	–	287	373	9,458	1,046	353	11,517
Additions	–	1,939	1,245	3,083	9,564	497	16,328
Disposals	–	(2)	(51)	(283)	(1,606)	(130)	(2,072)
Depreciation	(174)	(511)	(864)	(2,479)	(2,440)	(734)	(7,202)
Closing net book amount	7,521	4,325	3,641	17,591	13,168	2,115	48,361

Notes to the Financial Statements

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings	Furniture and fixtures	Office equipment	Plant and machinery	Leasehold improvements	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2005							
Cost	8,581	11,597	9,533	48,665	23,503	4,533	106,412
Accumulated depreciation	(1,060)	(7,272)	(5,892)	(31,074)	(10,335)	(2,418)	(58,051)
Net book amount	7,521	4,325	3,641	17,591	13,168	2,115	48,361
Year ended 31 December 2006							
Opening net book amount	**7,521**	**4,325**	**3,641**	**17,591**	**13,168**	**2,115**	**48,361**
Exchange differences	**–**	**64**	**30**	**80**	**146**	**11**	**331**
Additions	**–**	**1,757**	**3,078**	**9,146**	**5,512**	**2,264**	**21,757**
Disposals	**–**	**–**	**(15)**	**(34)**	**–**	**–**	**(49)**
Depreciation	**(174)**	**(998)**	**(1,243)**	**(7,171)**	**(3,726)**	**(1,027)**	**(14,339)**
Closing net book amount	**7,347**	**5,148**	**5,491**	**19,612**	**15,100**	**3,363**	**56,061**
At 31 December 2006							
Cost	**8,581**	**13,497**	**12,675**	**57,891**	**29,300**	**6,826**	**128,770**
Accumulated depreciation	**(1,234)**	**(8,349)**	**(7,184)**	**(38,279)**	**(14,200)**	**(3,463)**	**(72,709)**
Net book amount	**7,347**	**5,148**	**5,491**	**19,612**	**15,100**	**3,363**	**56,061**

In 1998, the Group entered into an arrangement with 2 independent third parties (the "Partners") for the development of certain manufacturing premises for the Group's use and staff quarters in Shenzhen and the Group's attributable interest in these buildings is 60%. These buildings are accounted for as jointly controlled assets of the Group.

As at 31 December 2006, the aggregate cost and accumulated depreciation of fixed assets held by the Group under finance leases amounted to HK$13,775,000 (2005: HK$7,054,000) and HK$5,917,000 (2005: HK$3,011,000), respectively.

Depreciation expenses of HK$12,469,000 (2005: HK$5,225,000) has been charged in cost of inventories sold and HK$1,870,000 (2005: HK$1,977,000) in administrative expenses.

17 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**2,172**	2,222

	2006	2005
	HK$'000	*HK$'000*
Opening net book amount	**2,222**	–
Reclassification from property, plant and equipment *(Note 16)*	**–**	2,427
Accumulated amortisation *(Note 16)*	**–**	(155)
Opening net book amount, as restated	**2,222**	2,272
Amortisation of prepaid operating lease payment *(Note 6)*	**(50)**	(50)
Closing net book amount	**2,172**	2,222

18 INTANGIBLE ASSET

Goodwill:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Cost and net book amount		
At the beginning of the year	**11,672**	–
Reclassification from investment in an associate *(Note 20)*	**–**	3,993
Acquisition of a subsidiary	**–**	7,679
At the end of the year	**11,672**	11,672

The goodwill relates to the excess of consideration paid for and the fair value of net assets acquired from the acquisition of Southchina Engineering and Manufacturing Limited ("Southchina"). The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. Management considers Southchina as one cash-generating unit (the "CGU"). The recoverable amount of the CGU is determined based on a value-in-use calculation. This calculation uses pre-tax cashflow projections based on financial budgets of Southchina, approved by management covering a five-year period. The pre-tax discount rate of 9.5% applied to the cash flow projections reflects specific risks relating to the business. Based on the impairment testing of goodwill, in the opinion of the Directors, no impairment provision is considered necessary for the balance of the goodwill.

Key assumptions used for value-in-use calculations

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(a) Budgeted turnover, operating expenses and finance costs were projected with reference to the expected earnings from manufacturing of plastic moulds, plastic and electronic accessories.

(b) For the business environment, there will be no change in the existing political, legal, regulatory, fiscal or economic conditions, bases or rates of taxation or duties in Hong Kong, or any other countries in which Southchina operates.

19 INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM A SUBSIDIARY

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted investments, at cost *(Note a)*	**1,237**	–
Due from a subsidiary *(Note b)*	**55,000**	1,470

Notes:

(a) The following is a list of subsidiaries at 31 December 2006:

Name	**Place of incorporation and kind of legal entity**	**Principal activities and place of operation**	**Particulars of issued share capital and debt securities**	**Interest held**
Alltronics (BVI) Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US$1 each	*100%
Alltronics Tech. Mftg. Limited	Hong Kong, limited liability company	Research and development, manufacturing and trading of electronic products in Hong Kong and PRC	500,000 ordinary shares of HK$1 each	100%
Allcomm (H.K.) Limited	Hong Kong, limited liability company	Investment holding and trading of electronic products in Hong Kong	2 ordinary shares of HK$1 each	100%
Shenzhen Allcomm Electronic Co. Ltd.	PRC, limited liability company	Manufacturing of electronic products in PRC	Registered capital of US$1,728,397	100%
Actronics Manufacturing Limited	PRC, limited liability company	Dormant	Registered capital of US$1,200,000	100%

19 INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM A SUBSIDIARY (Continued)

Notes: (Continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Interest held
Southchina Engineering and Manufacturing Limited	Hong Kong, limited liability company	Manufacturing of plastic moulds, plastic and electronic accessories in the PRC	1,000,000 ordinary shares of HK$1 each	51%
南盈塑膠實業（深圳）有限公司	PRC, limited liability company	Manufacturing of plastic moulds, plastic and electronic accessories in the PRC	Registered capital of HK$1,700,000	51%
Quant Electronics (HK) Limited	Hong Kong, limited liability company	Dormant	3,000,000 ordinary shares of HK$1 each	51%

* Shares held directly by the Company

(b) The amount due from a subsidiary is unsecured, interest-free and repayable on demand.

20 INVESTMENT IN AN ASSOCIATE AND AMOUNT DUE FROM/(TO) AN ASSOCIATE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Beginning of the year	**188**	6,646
Share of loss	**(188)**	(812)
	–	5,834
Acquisition of further equity interest in Southchina (the "Acquisition") *(Note a)*	**–**	(1,841)
Reclassification of goodwill as a result of the Acquisition *(Note 18)*	**–**	(3,993)
Addition as a result of the Acquisition	**–**	188
End of the year	**–**	188
Due from an associate *(Note b)*	**2**	91
Due to an associate *(Note c)*	–	(650)

20 INVESTMENT IN AN ASSOCIATE AND AMOUNT DUE FROM/(TO) AN ASSOCIATE (Continued)

As at 31 December 2006, the Group's interest in an associate, which is unlisted, was as follows:

Name	Particulars of issued shares held	Country of incorporation	Assets	Liabilities	Revenues	Loss for the year	Interest indirectly held
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	
TSC Manufacturing Limited ("TSC") *(Note d)*	3,000,000 ordinary shares of HK$1 each	Hong Kong	126	1,611	240	1,734	20.4%

Notes:

(a) In December 2005, the Group acquired a further 26% equity interest in Southchina and Southchina became a 51% indirectly owned subsidiary of the Group since then.

(b) The amount represented amount due from TSC and is unsecured, bears interest at prime rate plus 1% and repayable on demand.

(c) The balance due to an associate as at 31 December 2005 was unsecured, interest-free and with normal credit terms of 30 to 60 days.

(d) TSC has ceased business and remained dormant since 1 July 2006.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Unlisted capital guaranteed funds in Hong Kong:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Beginning of the year	**2,903**	–
Net gains transferred to equity	**335**	–
Acquisition of subsidiary	**–**	2,903
End of the year	**3,238**	2,903

There were no disposal or impairment provision on available-for-sale financial assets in 2006 or 2005.

As at 31 December 2006, available-for-sale financial assets with an aggregate carrying amount of HK$3,238,000 (2005: HK$2,903,000) were pledged to banks to secure loan and overdraft facilities granted to Southchina (Note 36).

As these capital guaranteed funds are not publicly traded and in the absence of readily available information to determine the fair values of these capital guaranteed funds, the Group has adopted the indicative market value provided by the issuers as its best estimate of the fair values of these capital guaranteed funds.

22 INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**55,087**	44,981
Work in progress	**15,702**	12,641
Finished goods	**17,448**	16,779
	88,237	74,401

The cost of inventories recognised as an expense and included in cost of inventories sold amounted to HK$326,732,000 (2005: HK$184,442,000).

23 TRADE RECEIVABLES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Trade receivables	**90,318**	62,760
Less: provision for impairment of receivables	**(5,684)**	(153)
	84,634	62,607

The Group's sales to corporate customers are entered into on credit terms of up to 90 days, except for certain credit worthy customers to whom a longer credit period is allowed. The ageing analysis of trade receivables at the balance sheet dates is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**49,095**	29,904
31 – 60 days	**19,455**	22,475
61 – 90 days	**9,440**	5,459
91 – 120 days	**3,911**	3,097
121 – 365 days	**2,584**	1,441
Over 365 days	**149**	231
	84,634	62,607

Trade receivables of HK$5,531,000 (2005: HK$Nil) were impaired for the year ended 31 December 2006. The creation of provision for impaired receivables have been included in administrative expenses in the income statement (Note 6).

24 AMOUNT DUE FROM A RELATED COMPANY

The balance represented trade receivable from a related company, Maruman Products Co. Ltd. ("Maruman") which is unsecured, interest-free with a credit term of 60 days. Mr. Lam Yin Kee, the Chairman and an executive Director of the Group, has a 24.7% equity interest in Maruman.

25 AMOUNT DUE FROM ULTIMATE HOLDING COMPANY AND DUE FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

The balances due from ultimate holding company and due from minority shareholders of a subsidiary were unsecured, interest-free and repayable on demand.

26 OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities – Hong Kong, at market values	**10,458**	9,627

The carrying amounts of the above financial assets are classified as follows:

	2006	2005
	HK$'000	*HK$'000*
Held for trading	**10,458**	9,627

Changes in fair values of financial assets at fair value through profit or loss are recorded in other (losses)/gains, in the income statement (Note 7).

27 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and on hand	**40,556**	24,447	**4,118**	5,305
Short-term bank deposits	**14,955**	66,605	**–**	50,303
	55,511	91,052	**4,118**	55,608

The effective interest rate on short-term bank deposits was 3.75% (2005: 1.27%); these deposits have a maturity period of 30 days to 3 months (2005: 30 days to 3 months).

Cash and cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and cash equivalents	**55,511**	91,052	**4,118**	55,608
Bank overdrafts *(Note 32)*	**(10,652)**	(36,814)	**–**	–
	44,859	54,238	**4,118**	55,608

The Group's bank balances and cash of approximately HK$5,501,000 and HK$5,007,000 as at 31 December 2006 and 2005, respectively, were denominated in Renminbi and kept with banks in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange restrictions imposed by the PRC government.

28 TRADE PAYABLES

The ageing analysis of the trade payables were as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**23,551**	22,022
31 – 60 days	**20,122**	18,514
61 – 90 days	**7,911**	2,420
91 – 120 days	**2,570**	372
121 – 365 days	**2,200**	818
Over 365 days	**120**	355
	56,474	44,501

29 SHARE CAPITAL

	Group and Company	
	Number of shares	**Nominal value**
		HK$'000
Authorised share capital		
At 1 January 2005 (ordinary shares of HK$0.1 each)	5,000,000	500
Subdivision of one share of HK$0.1 each into 10 shares of HK$0.01 each *(Note a)*	50,000,000	500
Increase in authorised share capital *(Note c)*	9,950,000,000	99,500
At 31 December 2005 and 2006	10,000,000,000	100,000

	Number of shares	**Nominal value**
		HK$'000
Issued and fully paid		
At 1 January 2005	2	–
Subdivision of one share of HK$0.1 each into 10 shares of HK$0.01 each *(Note a)*	20	–
Shares issued for acquisition of Alltronics (BVI) Limited *(Note b)*	980	9.8
Credited as fully paid the 20 shares already issued *(Note b)*	–	0.2
Issue of shares upon initial public offering *(Note d)*	90,000,000	900,000
Shares credited as fully paid pursuant to the Reorganisation *(Note e)*	209,999,000	2,099,990
At 31 December 2005 and 2006	300,000,000	3,000,000

29 SHARE CAPITAL (Continued)

Notes:

(a) On 17 June 2005, every issued and unissued share of HK$0.1 each in the share capital of the Company was subdivided into 10 shares of HK$0.01 each such that the Company had an authorised share capital of HK$500,000 divided into 50,000,000 shares of HK$0.01 each.

(b) On 17 June 2005, in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Alltronics (BVI) Limited of 100 shares of US$1.00 each, which was satisfied by the Company (i) allotting and issuing 980 new shares of HK$0.01 each, credited as fully paid, to the then shareholders of Alltronics (BVI) Limited, and (ii) crediting as fully paid the 20 shares of HK$0.01 each as already issued in nil paid on 18 August 2003.

(c) On 22 June 2005, the Company increased its authorised share capital from HK$500,000 to HK$100,000,000 by the creation of an additional 9,950,000,000 shares of HK$0.01 each.

(d) On 15 July 2005, the Company issued 90,000,000 new shares of HK$0.01 each at HK$0.8 per share by way of placing and public offering in connection with the Listing, raising net proceeds of approximately HK$61 million.

(e) Immediately after the Listing, 209,999,000 shares of HK$0.01 each were allotted and issued, credited as fully paid at par value to the then existing shareholders of the Company, by capitalisation of HK$2,099,990 from the share premium account.

30 SHARE-BASED PAYMENT TRANSACTIONS

On 22 June 2005, the Company adopted a share option scheme (the "Share Option Scheme") for the primary purpose of providing incentives or rewards to employees and Directors of the Company or any of its subsidiaries and any supplier and/or sub-contractor of the Group (the Participants") for their contributions or potential contributions to the Group. The Share Option Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Share Option Scheme is adopted.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. (the "General Scheme Limit") of the total number of shares on 15 July 2005, the listing date. The Company may seek approval of the shareholders in general meeting to refresh the General Scheme Limit such that the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10 per cent. of the issued share capital of the Company at the date of approval to refresh such limit.

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the total number of shares of the Company in issue from time to time. No option may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30 per cent. limit being exceeded. Unless with the approval of the shareholders in general meeting, the maximum number of shares issued and to be issued upon the exercise of the options granted to each Participant (including both exercised and outstanding options) under the Share Option Scheme and any other share option schemes of the Company in any twelve-month period shall not exceed 1 per cent. of the shares in issue.

An option must be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of the option is made, but shall end in any event not later than 10 years from the date on which the offer for the grant of the option is made, subject to the provisions for early termination thereof. The amount payable on acceptance of the grant of an option is HK$1. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is neither any performance target that needs to be achieved by a grantee before an option can be exercised nor any minimum period for which an option must be held before it can be exercised.

30 SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The subscription price in respect of each share issued under the Share Option Scheme shall be a price solely determined by the Directors but shall not be less than the highest of:

(i) the nominal value of a share;

(ii) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date upon which the relevant option is accepted and deemed to be granted (the "Commencement Date"), which must be a business day; and

(iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Commencement Date.

As at 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 13,500,000 (2005: Nil), representing 4.50% (2005: Nil) of the total number of shares of the Company in issue at that date.

The following table discloses details of the Company's share options held by employees and Directors and movements in such holding during the year:

	Number of share options					
	Held at 1 January 2006	**Granted during the year**	**Exercised during the year**	**Cancelled or lapsed during the year**	**Held at 31 December 2006**	**Exercise price per share** *(HK$)*
Executive Directors						
Lam Yin Kee	–	3,000,000	–	–	3,000,000	1.11
Yeung Po Wah	–	3,000,000	–	–	3,000,000	1.11
Toshio Daikai	–	300,000	–	–	300,000	1.11
	–	6,300,000	–	–	6,300,000	
Other employees	–	7,200,000	–	–	7,200,000	1.11
	–	13,500,000	–	–	13,500,000	

The share options were granted on 27 September 2006 with an exercisable period of two years from 27 September 2006 to 26 September 2008. There are no vesting periods for these share options. The closing market price per share at the date preceding the date on which the share options were granted was HK$1.13.

The estimated fair value of the options granted was approximately HK$1,614,000 and has been recognised in the consolidated income statement for the year ended 31 December 2006, with a corresponding increase in share option reserve in equity. Out of the total expense recognised, approximately HK$861,000 (2005: Nil) was related to options granted to the Group's employees and shown as staff costs (Note 9), and the remaining balance of approximately HK$753,000 represents share option expense for Directors (Note 10).

30 SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The Company has recognised share option expense of HK$377,000 for the year ended 31 December 2006 (2005: Nil) in relation to the share options attributable to Directors and employees of the Company. The remaining costs of HK$1,237,000 were borne by the main operating subsidiaries of the Company (2005: Nil).

The fair value of the share options granted during the year ended 31 December 2006 was determined using the Black-Scholes valuation model. The significant inputs into the model are as follows:

Exercise price	HK$1.11
Closing share price on date of grant	HK$1.10
Expected life	Two years
Expected volatility	20.50%
Expected dividend yield	3.18%
Risk free rate	3.70%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the period of one year prior to the date of grant.

Subsequent to 31 December 2006, an aggregate of 2,499,000 share options were exercised by certain employees. The weighted average closing market price per share immediately before the date on which the share options were exercised was HK$3.00.

No share option was granted during the year ended 31 December 2005.

31 RESERVES

(a) Group

	Share premium	Capital reserve	Share issuance costs	Exchange reserve	Revaluation reserve	Share option reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2005	–	5,300	(3,806)	130	–	–	49,919	51,543
Share issuance costs	–	–	(8,884)	–	–	–	–	(8,884)
Issue of shares by way of placing and public offer	71,100	–	–	–	–	–	–	71,100
Capitalisation of share premium for issue of new shares *(Note 29(e))*	(2,100)	–	–	–	–	–	–	(2,100)
Reclassification of accounts	(12,690)	–	12,690	–	–	–	–	–
Currency translation differences	–	–	–	427	–	–	–	427
Acquisition of a subsidiary	–	499	–	–	(206)	–	–	293
Profit for the year	–	–	–	–	–	–	26,935	26,935
Interim dividend paid	(10,500)	–	–	–	–	–	–	(10,500)
Balance at 31 December 2005	45,810	5,799	–	557	(206)	–	76,854	128,814
Balance at 1 January 2006, as per above	45,810	5,799	–	557	(206)	–	76,854	128,814
Fair value gain on available-for-sale financial assets *(Note 21)*	–	–	–	–	171	–	–	171
Currency translation differences	–	–	–	560	–	–	–	560
Employee share option scheme – value of employee services *(Note 30)*	–	–	–	–	–	1,614	–	1,614
Profit for the year	–	–	–	–	–	–	43,785	43,785
Final dividend relating to 2005	–	–	–	–	–	–	(4,500)	(4,500)
Interim dividend paid	–	–	–	–	–	–	(9,600)	(9,600)
Balance at 31 December 2006	**45,810**	**5,799**	**–**	**1,117**	**(35)**	**1,614**	**106,539**	**160,844**

31 RESERVES (Continued)

(b) Company

	Share premium	Share option reserve	(Accumulated loss)/ Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2005	–	–	(133)	(133)
Issue of shares by way of placing and public offer	71,100	–	–	71,100
Capitalisation of share premium for issue of new shares *(Note 29(e))*	(2,100)	–	–	(2,100)
Reallocation of share issuance costs from subsidiary	(12,690)	–	–	(12,690)
Profit for the year	–	–	7,448	7,448
Interim dividend paid	(10,500)	–	–	(10,500)
Balance at 31 December 2005	45,810	–	7,315	53,125
Balance at 1 January 2006, as per above	45,810	–	7,315	53,125
Employee share option scheme – value of employee services *(Note 30)*	–	1,614	–	1,614
Profit for the year	–	–	16,572	16,572
Final dividend relating to 2005	–	–	(4,500)	(4,500)
Interim dividend paid	–	–	(9,600)	(9,600)
Balance at 31 December 2006	**45,810**	**1,614**	**9,787**	**57,211**

Notes to the Financial Statements

32 BORROWINGS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Bank loans, secured *(Note a)*	**30,831**	21,415
Obligations under finance leases *(Note b)*	**5,568**	3,299
Bills payable, secured	**30,487**	42,819
Trust receipt loans, secured	**–**	1,210
Bank overdrafts, secured	**10,652**	36,814
Total borrowings, wholly repayable within five years	**77,538**	105,557
Current portion of borrowings	**(61,843)**	(94,853)
Long-term borrowings	**15,695**	10,704

Notes:

(a) Details of the available banking facilities and securities given in respect of the above secured borrowings are set out in Note 36.

The Group's bank loans were repayable as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	**17,857**	12,056
In the second year	**10,845**	5,719
In the third to fifth year	**2,129**	3,640
	30,831	21,415

(b) The Group's finance lease liabilities were repayable as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	**3,169**	2,112
In the second year	**2,024**	1,268
In the third to fifth year	**1,240**	123
	6,433	3,503
Future finance charges on finance leases	**(865)**	(204)
Present value of finance lease liabilities	**5,568**	3,299

32 BORROWINGS (Continued)

Notes: (Continued)

The present value of finance lease liabilities is as follows:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	**2,847**	1,954
In the second year	**1,865**	1,224
In the third to fifth year	**856**	121
	5,568	3,299

(c) The effective interest rates at the balance sheet date were as follows:

	2006	**2005**
Bank overdrafts	**8.6%**	8.0%
Bank loans	**7.1%**	6.2%
Obligations under finance leases	**7.2%**	4.9%

33 DEFERRED INCOME TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% for the year.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**(53)**	(331)
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**1,522**	1,573

33 DEFERRED INCOME TAX (Continued)

The gross movement on the deferred income tax account is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Beginning of the year	**1,242**	1,281
Acquisition of a subsidiary	**–**	145
Charged/ (credited) to the consolidated income statement *(Note 12)*	**227**	(184)
End of the year	**1,469**	1,242

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Tax losses	**Other**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	–	–	–
Credited to the income statement	–	(27)	(27)
Acquisition of a subsidiary	(235)	(69)	(304)
At 31 December 2005	(235)	(96)	(331)
Charged to the income statement	235	43	278
At 31 December 2006	**–**	**(53)**	**(53)**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2006, the Group has no unrecognised tax losses to carry forward against future taxable income.

Deferred tax liabilities

	Accelerated tax depreciation	**Other**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	1,208	73	1,281
Credited to the income statement	(84)	(73)	(157)
Acquisition of a subsidiary	449	–	449
At 31 December 2005	1,573	–	1,573
Credited to the income statement	(51)	–	(51)
At 31 December 2006	**1,522**	**–**	**1,522**

34 CASH GENERATED FROM OPERATIONS

	2006 *HK$'000*	2005 *HK$'000*
Profit before income tax	**54,586**	33,945
Adjustments for:		
Depreciation *(Note 16)*	**14,339**	7,202
Amortisation of prepaid operating lease payments *(Note 17)*	**50**	50
Loss on disposals of property, plant and equipment *(Note 7)*	**25**	1,301
Gain on disposals of other financial assets at fair value through profit or loss *(Note 7)*	**(660)**	(1,993)
Fair value (gain)/loss on other financial assets at fair value through profit or loss *(Note 7)*	**(458)**	155
Provision for impairment of trade receivables *(Note 23)*	**5,531**	–
Share-based payments *(Note 30)*	**1,614**	–
Interest income on other financial assets at fair value through profit or loss *(Note 7)*	**(1,318)**	(473)
Dividends from other financial assets at fair value through profit or loss *(Note 7)*	**(14)**	(60)
Finance costs – net *(Note 8)*	**6,281**	2,224
Share of loss of an associate *(Note 20)*	**188**	812
	80,164	43,163
Changes in working capital:		
Trade receivables	**(27,558)**	(24,005)
Prepayments, deposits and other receivables	**(16,416)**	(2,902)
Inventories	**(13,836)**	(22,788)
Amount due from an associate	**89**	(91)
Amount due from ultimate holding company	**–**	(29)
Amount due from minority shareholders of a subsidiary	**(300)**	–
Amount due from a related company	**(112)**	860
Bills payable	**(12,332)**	8,779
Amount due to an associate	**(650)**	2,411
Trade payables	**11,973**	9,965
Accruals and other payables	**3,346**	2,232
Trust receipt loans	**(1,210)**	(772)
Cash generated from operations	**23,158**	16,823

Notes to the Financial Statements

35 COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2006	2005
	HK$'000	*HK$'000*
Property, plant and equipment		
Contracted but not provided for	**3,012**	3,068
Authorised but not contracted for	**716**	32,240
	3,728	35,308

(b) Financial commitment for investment in a subsidiary

During the year ended 31 December 2004, the Group set up a wholly owned foreign investment enterprise in the PRC with a registered capital of US$1,200,000. As at 31 December 2006 and 31 December 2005, the paid up capital of this entity amounted to US$180,000. The remaining US$1,020,000 has not been paid up as at 31 December 2006 as the Group is in the process of deregistering this entity.

(c) Operating lease commitments

The Group leases various offices, warehouses and quarters under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2006	2005
	HK$'000	*HK$'000*
Not later than 1 year	**10,809**	10,540
Later than 1 year and not later than 5 years	**19,542**	18,600
Later than 5 years	**119**	3,409
	30,470	32,549

36 BANKING FACILITIES

As at 31 December 2006, the Group's total available banking facilities amounted to approximately HK$261 million (2005: HK$223 million), of which approximately HK$189 million (2005: HK$122 million) was unutilised. The facilities were secured by the following:

(a) corporate guarantees given by the Company;

(b) pledge of the Group's fixed deposits of HK$2.4 million (2005: HK$4.9 million);

(c) available-for-sale financial assets with carrying value totaling approximately HK$3.2 million (2005: HK$2.9 million); and

(d) the Group's trade receivables of HK$815,000 (2005: HK$1,402,000).

The banking facilities granted to Southchina are also secured by personal guarantees given by Mr. Lam Yin Kee, a Director of the Company and other minority shareholders of Southchina.

37 RELATED PARTY TRANSACTIONS

The Group is controlled by Profit International Holdings Limited (incorporated in the British Virgin Islands), which owns 70% of the Company's shares. In the opinion of the Directors, Profit International Holdings Limited is the ultimate holding company of the Company. The remaining 30% of the shares are widely held.

(a) Significant related party transactions, which were carried out in the normal course of the Group's business and at terms negotiated between the Group and the respective parties, were as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Sale of goods to Maruman *(i)*	**6,772**	19,129
Sale of goods to Southchina *(ii)*	**–**	2,424
Purchases of plastic components from Southchina *(ii)*	**–**	26,711
Mould expenses paid to Southchina *(ii)*	**–**	1,292
Rental expenses paid to Profit Home Investments Limited *(iii)*	**960**	960
Purchases of property, plant and equipment from TSC *(iv)*	**2,160**	–

(i) Maruman Products Co. Ltd. ("Maruman") is a company incorporated in Japan and owned as to 24.7% by Mr. Lam Yin Kee, a Director of the Company. Maruman is engaged in the business of trading in general merchandise.

(ii) Southchina was a 25% owned associate of the Group until 16 December 2005, when the Group acquired a further 26% equity interest in Southchina. Inter-company transactions with Southchina were eliminated in these consolidated financial statements since then.

(iii) Ms. Yeung Po Wah is a Director of the Company, and has a 60% equity interest in Profit Home Investments Limited.

(iv) TSC is a 20.4% owned associate of the Group (Note 20).

37 RELATED PARTY TRANSACTIONS (Continued)

(b) Year end balances arising from the related parties transactions as disclosed in note (a) above were as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Amount due from a related company *(Note 24)*	**919**	807

Amount due from a related company is aged less than one year and is unsecured, non-interest bearing and with normal credit terms of 60 days.

(c) **Key management compensation**

	2006	2005
	HK$'000	*HK$'000*
Directors' fees	**960**	517
Salaries and other short-term employee benefits	**13,666**	8,760
Share-based payments	**1,614**	–
Post-employment benefits	**144**	96
	16,384	9,373

38 EVENTS AFTER THE BALANCE SHEET DATE

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law changes the corporate income tax rate to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items have yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, on the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.