1. CORPORATE INFORMATION

Peaktop International Holdings Limited (the "Company"), with its subsidiaries (collectively referred to as the "Group") is a limited liability company incorporated in Bermuda.

The principal place of business of the Company is located at Unit 1603-1605, 16th Floor, Tower III, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. During the year, the Group was engaged in the business of in the design, manufacture and sale of home, garden and plastic decorative products.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities in The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for investment properties, other freehold land and buildings and certain financial assets, which are stated at fair values as explained in their respective accounting policies set out below. Disposal group and non-current assets held for sale are stated at the lower of their carrying amount and fair values less cost to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand unless otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. 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 their activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated in full on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)–Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 *Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements and this change has had no impact on these financial statements as at 31 December 2006 or 31 December 2005.

(c) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. There is no material difference on the Group practice when compare with the prior year. The adoption of this amendment has had no material impact on these financial statement as at 31 December 2006 or 31 December 2005.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(d) HK(IFRIC)–Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)–Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
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

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)–Int 7, HK(IFRIC)–Int 8, HK(IFRIC)–Int 9 and HK(IFRIC)–Int 10 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006 and 1 November 2006, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and machinery is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

The building component of owner-occupied leasehold properties is stated at valuation less accumulated depreciation. Fair value is determined by the directors based on independent valuations which are performed periodically. The directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the leasehold buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged and thereafter to asset revaluation reserve.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Leasehold buildings	20 to 40 years or over the lease terms, whichever is shorter
Leasehold improvements	3 to 10 years or over the lease terms, whichever is shorter
Plant and machinery	10 years
Furniture, fixtures, equipment and motor vehicles	5 years
Moulds	2 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and others under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Capitalisation of these costs ceases and construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for its intended use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties, deferred tax assets, and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Intangible assets (other than goodwill)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding two to five years, commencing from the date when the products are put into commercial production.

Deferred expenses

Payments made to customers as consideration for their long term commitments to purchase exclusively from the Group are recorded as deferred expenses. The deferred expenses are capitalized only when it is expected that future economic benefits will flow to the Group.

Deferred expenses are stated at cost less any impairment losses and are amortised, using the straight-line method, over the terms of the underlying contracts.

Leases

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

Assets required through hire purchase contracts of a financing nature are accounted for a finance leases, but are depreciated over their estimated useful lives.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit and loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Financial assets at fair value through profit and loss

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit and loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit and loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit and loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit and loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit and loss are measured at fair value, with changes in fair value recognised directly in profit and loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*
Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition
Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

ii) rental income, on a time proportion basis over the lease terms;

iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

iv) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension scheme and other retirement benefits

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

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity, the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Impairment of property, plant and equipment

The Group conducts impairment reviews of property, plant and equipment and prepaid lease payments whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows and a suitable discount rate in order to calculate the present value, by reference to the business environment as well as the Group's objectives and past performance where the actual future cash flows are less than expected, a material impairment loss may arise.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred development cost

Development costs are capitalized in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Impairment of receivables

Significant judgement is exercised in the assessment of the collectibility of accounts receivable from each customer. In making its judgement, management considers a wide range of factors such as results of follow-up procedures performed by sales personnel, customers' payment trend including subsequent payments and customers' financial position.

Taxation

The Group is subject to income taxes in numerous jurisdictions. Significant judgement 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 recognizes liabilities for anticipated tax payable based on estimates of the potential tax liability due. Where the final tax outcome 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Taxation (continued)

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realized, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred taxation and related financial models and budgets are review at each balance sheet date.

Valuation of investment in securities

All financial securities are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. Fair values of investments in securities measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. There includes comparison with similar instruments where market observable prices exist and appropriate valuation techniques commonly used by market participants.

The main factors which management considers included (i) the likelihood an expected timing of future cash flows on the securities. These cash flows are usually governed by the terms of the securities, although management judgement may be required in situations where the ability of the counterparty to service the securities in accordance with the contractual terms is in doubt; and (ii) an appropriate discount rate for the securities. Management determines this rate, based on its assessment of the appropriate spread of the rate for the securities over the risk-free rate. When valuing securities by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

Changes in their fair value of trading securities directly impact the Group's income statement in the period in which they occur. For those securities classified as available-for-sale, consideration as to whether any such assets should be written down to reflect an impairment is taken into account in the fair value of the relevant security. Any impairment in the value of available-for-sale securities held as available-for-sale is reported in the income statement and hence reduces the Group's profit for the period.

Consideration of disposal group

On 28 March 2006, the Group entered into a sales and purchase agreement with an independent third party to dispose of 81% of the equity interest in Heissner AG for among others, a cash consideration of approximately Euro€2 million equivalent to (approximately HK$20 million). Pursuant to the agreement, the consideration of the transaction ranged from zero to Euro€2.5 million, depending on the cumulative earning before interest and tax of Heissner AG in the coming 5 years ending 31 August 2010. With reference to the valuation reports prepared by an independent valuation firm and the profit forecast prepared by the management according to their best current estimation, the management concluded that the fair value of the cash consideration at the date of the sale and purchase agreement, and 31 December 2006 approximated to Euro€2 million. The cash consideration of Euro€2 million applied for the impairment assessment is based on the profit forecast prepared by the management according to their best current estimation.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment. Information relating to geographical segments based on the location of customers and assets is chosen as the primary reporting format because it is considered by management to be more relevant to the Group in making operating and financial decisions.

Segment assets consist primarily of accounts receivable and goodwill, and exclude fixed assets, intangible assets, investments, inventories, other receivables and operating cash.

An analysis of assets and capital expenditure based on the geographical location of assets is also presented as additional information.

4. SEGMENT INFORMATION *(continued)*

a) Geographical segments by location of customers

	2006				
	United States of America	Europe	Asia Pacific	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	**675,033**	**267,664**	**146,187**	**303**	**1,089,187**
Segment results	**58,378**	**10,503**	**23,922**	**270**	**93,073**
Unallocated operating income and expenses					**(49,975)**
Profit from operations					**43,098**
Finance costs					**(29,288)**
Profit before taxation					**13,810**
Taxation					**(102)**
Profit for the year					**13,708**
Segment assets	**64,438**	**7,813**	**16,879**	**60**	**89,190**
Unallocated assets					**551,205**
Total assets					**640,395**
Unallocated liabilities					**384,186**
Other segment information:					
Capital expenditure (unallocated)					
– Property, plant and equipment					**15,654**
– Intangible assets					**15,723**
Amortisation of intangible assets (unallocated)					**12,176**
Depreciation (unallocated)					**37,148**
Impairment loss for bad and doubtful debts	**–**	**1,749**	**1,175**	**–**	**2,924**

4. SEGMENT INFORMATION *(continued)*

a) Geographical segments by location of customers *(continued)*

	2005				
	United States of America HK$'000	Europe HK$'000	Asia Pacific HK$'000	Others HK$'000	Consolidated HK$'000
Revenue from external customers	723,553	292,123	144,541	1,000	1,161,217
Segment results	54,952	7,045	6,591	231	68,819
Unallocated operating income and expenses					(72,720)
Loss from operations					(3,901)
Change in fair value of investment properties					14,242
Finance costs					(28,514)
Loss before taxation					(18,173)
Taxation					648
Loss for the year					(17,525)
Segment assets	77,661	5,061	37,055	–	119,777
Unallocated assets					813,853
Total assets					933,630
Unallocated liabilities					696,075
Other segment information:					
Capital expenditure (unallocated)					
– Property, plant and equipment					57,560
– Intangible assets					301
Amortisation of intangible assets (unallocated)					10,611
Depreciation (unallocated)					43,541
Charge in fair value of investment properties (unallocated)					14,242
Impairment loss for bad and doubtful debts	1,233	1,185	–	–	2,418

4. SEGMENT INFORMATION *(continued)*

b) Geographical segments by location of assets

	2006	
	Total assets	**Capital expenditure**
	HK$'000	***HK$'000***
Asia Pacific	**528,550**	**12,852**
Europe	**19,828**	**263**
United States of America	**84,150**	**2,539**
	632,528	**15,654**
Unallocated assets	**7,867**	**15,723**
Total	**640,395**	**31,377**

	2005	
	Total assets	Capital expenditure
	HK$'000	*HK$'000*
Asia Pacific	566,040	46,156
Europe	258,687	8,088
United States of America	97,896	3,316
	922,623	57,560
Unallocated assets	11,007	301
Total	933,630	57,861

4. SEGMENT INFORMATION *(continued)*

c) Business segments

The Group comprises the following business segments:

	Outdoor decoration	Indoor decoration	2006 Plastic injection	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	**679,007**	**315,511**	**64,070**	**30,599**	**1,089,187**
Segment assets	**381,245**	**152,228**	**30,770**	**25,524**	**589,767**
Unallocated assets					**50,628**
Total assets					**640,395**
Capital expenditure	**19,561**	**9,089**	**1,846**	**881**	**31,377**

	Outdoor decoration	Indoor decoration	2005 Plastic injection	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	634,621	398,068	117,034	11,494	1,161,217
Segment assets	634,625	182,019	57,887	17,671	892,202
Unallocated assets					41,428
Total assets					933,630
Capital expenditure	32,071	19,387	5,979	424	57,861

5. REVENUE, OTHER INCOME AND GAINS

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sales of home, garden and plastic decorative products.

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net sales taxes, of discounts and returns.

An analysis of other income and gains is as follows:

	2006 HK$'000	2005 HK$'000
Other income		
Bank interest income	**1,562**	1,716
Gross rental income	**939**	1,305
Recovery of bad debts	**–**	1,181
Others	**11,389**	4,193
	13,890	8,395
Other gains		
Gain on disposal of non-current assets held for sale	**20,927**	–
Other income and gains	**34,817**	8,395

6. PROFIT/(LOSS) BEFORE TAXATION

The Group's profit/(loss) before taxation is arrived at after charging:

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold *		**666,368**	764,424
Employee benefits expense *(including directors' remuneration)*:	*8*		
Salaries, allowances and other benefits		**154,068**	177,432
Retirement benefits scheme contributions		**2,314**	4,098
Depreciation	*14*	**37,148**	43,541
Auditors' remuneration		**1,808**	3,216
Foreign exchange differences, net		**541**	7,168
Amortisation of intangible assets	*19*	**12,176**	10,611
Impairment on intangible assets **	*19*	**–**	491
Loss on disposal of items of property, plant and equipment **		**516**	341
Impairment loss for bad and doubtful debts **		**2,924**	2,418
Loss on disposal of subsidiaries, net **	*35*	**14,958**	–
Impairment on interest in an associate		**–**	255
Impairment on the assets of a disposal group		**–**	1,776
Minimum lease payments under operating leases in respect of land and buildings		**9,568**	10,999
Write-down of inventories to net realisable value		**141**	1,314

* The "cost of inventories sold" includes HK$102,751,000 (2005: HK$116,948,000) relating to staff costs, depreciation, amortisation of intangible assets and operating lease rentals in respect of land and buildings, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

** These expenses are included in "other operating expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group 2006 HK$'000	Group 2005 HK$'000
Interest on bank advances and other borrowings wholly repayable within five years	**28,957**	28,090
Finance charge on obligation under finance leases	**331**	424
Total borrowings cost	**29,288**	28,514

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Fees	**540**	540
Other emoluments:		
Salaries, allowances and benefits in kind	**7,186**	8,905
Retirement benefits scheme contributions	**61**	54
	7,247	8,959
Total	**7,787**	9,499

8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	2005
	HK$'000	*HK$'000*
Mr. Bernard Charnwut Chan	**180**	180
Mr. Goh Gen Cheung	**180**	180
Mr. Ma Chiu Cheung Andrew	**180**	180
	540	540

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors and a non-executive director

	2006			
	Fees	**Salaries, allowances and benefits in kind**	**Retirement benefits contributions**	**Total remuneration**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Executive directors:				
Mr. Lin Chun Kuei	**–**	**2,012**	**11**	**2,023**
Mr. Andree Halim	**–**	**234**	**–**	**234**
Mr. Ng Kin Nam	**–**	**234**	**10**	**244**
Mr. Li Chien Kuan	**–**	**1,170**	**7**	**1,177**
Mr. Li Chun Fu	**–**	**1,101**	**2**	**1,103**
Mr. Graeme Stanley Pope	**–**	**480**	**–**	**480**
Mr. Guo Yah Taur	**–**	**94**	**–**	**94**
Ms. Lin Huang Su Feng	**–**	**1,011**	**17**	**1,028**
Mr. Lin Wei-Hung	**–**	**476**	**–**	**476**
Mr. Daniel Halim	**–**	**140**	**7**	**147**
Mr. Cheung Kwok Ping	**–**	**140**	**7**	**147**
	–	**7,092**	**61**	**7,153**
Non-executive director:				
Mr. Tan Kong King	**94**	**–**	**–**	**94**
	94	**7,092**	**61**	**7,247**

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director *(continued)*

	2005			
	Fees	Salaries, allowances and benefits in kind	Retirement benefits contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Mr. Lin Chun Kuei	–	2,122	12	2,134
Mr. Andree Halim	–	398	–	398
Mr. Ng Kin Nam	–	398	12	410
Mr. Li Chien Kuan	–	1,412	10	1,422
Mr. Li Chun Fu	–	1,371	–	1,371
Mr. Graeme Stanley Pope	–	1,401	–	1,401
Mr. Guo Yah Taur	–	296	–	296
Ms. Lin Huang Su Feng	–	620	10	630
Mr. Lin Wei-Hung	–	584	–	584
Mr. Daniel Halim	–	101	5	106
Mr. Cheung Kwok Ping	–	101	5	106
	–	8,804	54	8,858
Non-executive director:				
Mr. Tan Kong King	101	–	–	101
	101	8,804	54	8,959

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2005: two) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**2,268**	3,673
Pension scheme contributions	**12**	–
	2,280	3,673

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2006	2005
HK$1,000,000 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	1

10. TAXATION

No Hong Kong profits tax has been provided as the Group does not derive any assessable profit arising in Hong Kong during the year (2005: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof for both years.

10. TAXATION *(continued)*

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	**–**	–
Elsewhere	**638**	254
Deferred, net — note 36	**(2,517)**	(947)
	(1,879)	(693)
Underprovision in prior years:		
Elsewhere	**1,981**	45
Total tax charge/(credit) for the year	**102**	(648)

A reconciliation of the tax expense applicable to profit/(loss) before taxation using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense/(credit) at the effective tax rates are as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) before taxation	**13,810**	(18,173)
Tax at domestic rates applicable to profits/(losses) in the countries concerned	**7,959**	(3,578)
Lower tax rate for specific provinces in Mainland China	**(693)**	(145)
Effect of tax holiday	**(5,812)**	(1,639)
Adjustment in respect of current tax of previous periods	**3**	45
Income not subject to tax	**(7,935)**	(42,152)
Expenses not deductible for tax	**10,201**	46,602
Unrecognised tax losses	**3,546**	3,504
Tax losses utilised from previous years	**(7,167)**	(2,337)
Deferred tax liabilities principally arising from accelerated tax depreciation	**–**	(312)
Deferred tax assets arising from losses brought forward recognised during the year	**–**	(636)
Tax charge/(credit) at effective rate	**102**	(648)

In accordance with the relevant approval documents issued by the Mainland China tax authorities, certain subsidiaries of the Group operating in Mainland China are exempted from Mainland China corporate income tax for the first two profitable calendar years of operation and thereafter are eligible for a 50% relief from Mainland China corporate income tax for the following three years.

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity holders of the Company for the year ended 31 December 2006 dealt with in the financial statements of the Company, was loss of HK$2,566,000 (2005: HK$20,617,000) (note 39).

12. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year (2005: Nil).

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2006 and 2005 have not been disclosed as no diluting events existed during these years.

The calculations of basic earnings/(loss) per share are based on:

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss)		
Profit/(loss) attributable to equity holders of the Company, used in the basic earnings/(loss) per share calculation	**13,766**	(16,724)

	Number of shares	
	2006	2005
Shares		
Issued ordinary shares at 1 January	**857,196,000**	730,938,000
Effect of issued of shares	**–**	78,522,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**857,196,000**	809,460,000

As there were no dilutive potential ordinary shares in issue during the years ended 31 December 2006 and 2005, the diluted earnings/(loss) per share for the year is the same as the basic earnings/(loss) per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Group							
	Freehold land and buildings	Leasehold buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Moulds	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation								
At 1/1/2005	82,104	122,677	52,280	72,277	134,587	14,448	15,919	494,292
Additions	309	–	1,678	8,878	30,791	6,852	9,052	57,560
Assets included in a disposal group	(51,806)	–	–	(4,419)	(95,050)	–	(43)	(151,318)
Non-current asset classified as held for sale *(note a)*	–	(17,176)	–	–	–	–	–	(17,176)
Disposals	–	(525)	–	(2,760)	(887)	(604)	(168)	(4,944)
Deficit on revaluation	(19,334)	–	–	–	–	–	–	(19,334)
Transfers	–	23,961	–	–	–	–	(23,961)	–
Exchange realignment	(11,273)	3,741	1,516	1,117	(13,978)	563	170	(18,144)
At 31/12/2005 and 1/1/2006	–	132,678	55,474	75,093	55,463	21,259	969	340,936
Additions	–	–	2,057	2,556	4,078	5,933	1,030	15,654
Disposals	–	–	(1,705)	(3,020)	(4,638)	–	–	(9,363)
Disposals of a subsidiary	–	–	(29)	–	(628)	–	–	(657)
Transfers	–	–	975	–	–	–	(975)	–
Transfer from investment properties *(note 15(a))*	–	4,626	–	–	–	–	–	4,626
Exchange realignment	–	4,419	1,659	1,978	2,021	846	33	10,956
At 31/12/2006	–	141,723	58,431	76,607	56,296	28,038	1,057	362,152
Representing:								
Cost – 2005	–	–	55,474	75,093	55,463	21,259	969	208,258
Fair value – 2005	–	132,678	–	–	–	–	–	132,678
At 31/12/2005	–	132,678	55,474	75,093	55,463	21,259	969	340,936
Cost – 2006	–	–	58,431	76,607	56,296	28,038	1,057	220,429
Fair value – 2006	–	141,723	–	–	–	–	–	141,723
At 31/12/2006	–	141,723	58,431	76,607	56,296	28,038	1,057	362,152

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

	Group							
	Freehold land and buildings	Leasehold buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Moulds	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation and impairment								
At 1/1/2005	5,849	22,640	35,987	29,225	107,769	10,200	–	211,670
Charge for the year	1,763	4,065	4,729	8,461	19,706	4,817	–	43,541
Revaluation	(6,718)	–	–	–	–	–	–	(6,718)
Assets included in a disposal group	–	–	–	(3,337)	(84,816)	–	–	(88,153)
Non-current asset classified as held for sale *(note a)*	–	(5,254)	–	–	–	–	–	(5,254)
Written back on disposals	–	–	–	(954)	(622)	(202)	–	(1,778)
Impairment	–	–	–	–	1,469	–	–	1,469
Transfer	–	–	–	–	–	–	–	
Exchange realignment	(894)	717	1,100	239	(12,233)	401	–	(10,670)
At 31/12/2005 and 1/1/2006	–	22,168	41,816	33,634	31,273	15,216	–	144,107
Charge for the year	–	6,616	4,513	7,221	5,900	7,057	–	31,307
Written back on disposals	–	–	(1,641)	(2,103)	(2,917)	–	–	(6,661)
Disposals of subsidiary	–	–	5	–	(636)	–	–	(631)
Exchange realignment	–	1,001	1,299	1,003	1,168	678	–	5,149
At 31/12/2006	–	29,785	45,992	39,755	34,788	22,951	–	173,271
Net carrying amount								
At 31/12/2006	–	111,938	12,439	36,852	21,508	5,087	1,057	188,881
At 31/12/2005	–	110,510	13,658	41,459	24,190	6,043	969	196,829

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

(a) In 2005, the Group entered into agreement with an independent third party in relation to the disposal of a property located in Hong Kong for a cash consideration of HK$43,000,000. Accordingly, the cost and accumulated depreciation of building of HK$17,176,000 and HK$5,254,000 respectively, and the prepaid land lease payments of HK$9,589,000 (note 16) totaling HK$21,511,000 was classified as non-current asset held for sale.

(b) The net carrying amount of the property, plant and equipment of the Group held under finance leases included in the total amount of plant and machinery at 31 December 2006 amounted to HK$3,936,000 (2005: HK$7,380,000).

(c) At 31 December 2006, the Group is still in the process of obtaining the land and properties certificates for certain of its leasehold land and buildings with an aggregate carrying value of HK$28,420,000 (2005: HK$29,058,000.)

(d) The Group's buildings in Hong Kong and Mainland China were revalued individually on an open market, existing use basis at 31 December 2006 by Greater China Appraisal Limited ("Greater China"), independent professionally qualified valuers. There was no material surplus or deficit arising therefrom.

For the buildings in Mainland China, the carrying amounts with the reference to a valuation performed by Greater China on a depreciated replacement cost basis at 31 December 2006, did not differ materially from their fair value as at 31 December 2006.

(e) Had the Group's revalued leasehold buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$71,997,000 (2005: HK$68,683,000).

(f) At 31 December 2006, the Group's leasehold buildings with a net book value of HK$68,708,000 (2005: HK$104,127,000) were pledged to the Group's bankers to secure banking facilities granted to the Group, as detailed in note 32 to the financial statements.

(g) The analysis of net carrying amount of properties is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
In Hong Kong		
– medium-term lease	**4,486**	–
Outside Hong Kong		
– medium-term lease	**107,452**	110,510
	111,938	110,510

15. INVESTMENT PROPERTIES

	2006 HK$'000	2005 HK$'000
At 1 January	**32,000**	17,758
Fair value gain	**–**	14,242
Transfer to owner-occupied property *(note a)*	**(22,030)**	–
At 31 December	**9,970**	32,000

(a) In 2006, the Group transferred its investment property, which carried at fair value of HK$22,030,000 at the date of change in use, to leasehold buildings of HK$4,626,000 (note 14) and prepaid land lease payments of HK$17,404,000 (note 16).

(b) The Group's investment properties are situated in Hong Kong and are held under the medium term leases.

(c) The Group's investment properties were revalued on 31 December 2006 by Greater China, independent professionally qualified valuers, at HK$9,970,000 on the basis of its open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 42(a) to the financial statements.

(d) At 31 December 2005, the Group's investment properties with a value of HK$32,000,000 were pledged to secure general banking facilities granted to the Group (note 32).

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2006 HK$'000	2005 HK$'000
Net book value at 1 January	**50,822**	57,534
Additions	**–**	2,785
Transfers from investment properties *(Note 15(a))*	**17,404**	–
Non-current asset classified as held for sale	**–**	(9,589)
Amortization	**(1,594)**	(1,382)
Exchange realignment	**1,622**	1,474
Net book value at 31 December	**68,254**	50,822
Current portion included in prepayments, deposits and other receivables	**(1,602)**	(1,139)
Non-current portion	**66,652**	49,683

16. PREPAID LAND LEASE PAYMENTS *(continued)*

(a) The analysis of net book value as at 31 December 2006 is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
In Hong Kong		
– medium-term lease	**17,226**	–
Outside Hong Kong		
– medium-term lease	**51,028**	50,822
	68,254	50,822

(b) At 31 December 2006, the Group's leasehold land with a carrying value of HK$30,000,000 (2005: HK$23,571,000) were pledged to secured general banking facilities granted to the Group (note 32).

17. GOODWILL

	Group	
	2006	2005
	HK$'000	*HK$'000*
Cost		
At 1 January	**3,916**	4,223
Attributable to a disposal group	**–**	(307)
Derecognised upon disposal of a subsidiary	**(457)**	–
At 31 December	**3,459**	3,916

Impairment tests for cash-generating units containing goodwill

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Outdoor decoration	**2,155**	2,138
Indoor decoration	**1,003**	1,343
Plastic injection	**204**	396
Others	**97**	39
	3,459	3,916

17. GOODWILL *(continued)*

The recoverable amount of these subsidiaries have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 4.65% (2005: 4.65%). No growth rate has been projected beyond the five-year period.

Key assumptions were used in the value in use calculation of the outdoor decoration and indoor decoration units for 31 December 2006 and 31 December 2005. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for currencies denominated in Renminbi, United States dollars and Hong Kong dollars from where raw materials are sourced. The values assigned to key assumptions are consistent with external information sources.

18. OTHER INTANGIBLE ASSETS

	Group			
	Deferred expenses *HK$'000*	Deferred development costs *HK$'000*	Patents *HK$'000*	Total *HK$'000*
Carrying amount at 1 January 2005	1,309	8,877	2,628	12,814
Additions	–	120	181	301
Amortisation	(1,308)	(7,829)	(1,474)	(10,611)
Impairment during the year	–	–	(491)	(491)
Exchange realignment	(1)	111	1	111
Carrying amount at 31 December 2005 and 1 January 2006	–	1,279	845	2,124
Additions	–	15,573	150	15,723
Amortisation	–	(12,176)	–	(12,176)
Written-off	–	(3)	–	(3)
Exchange realignment	–	129	(1)	128
At 31 December 2006	–	4,802	994	5,796
At 31 December 2006:				
Cost	4,167	17,092	8,366	29,625
Accumulated amortisation and impairment	(4,167)	(12,290)	(7,372)	(23,829)
Net carrying amount	–	4,802	994	5,796
At 31 December 2005:				
Cost	11,963	9,530	8,217	29,710
Accumulated amortisation and impairment	(11,963)	(8,251)	(7,372)	(27,586)
Net carrying amount	–	1,279	845	2,124

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**75,331**	75,331
Less: impairment	**(47,629)**	(47,629)
	27,702	27,702
Due from subsidiaries	**203,191**	207,993
	230,893	235,695

(a) In 2005, the management of the Group assessed the recoverable amounts of the investments on subsidiaries. Based on this assessment, the carrying amount of the investments on subsidiaries was written down by HK$19,200,000. The management determined the recoverable amount on the basis of past performance, management's expectations for the market development and certain key assumptions.

(b) The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

(c) Particulars of the principal subsidiaries are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued and paid-up share/ registered capital**	**Percentage of equity attributable to the Company**	**Principal activities**
Peaktop Investment Holdings (B.V.I.) Limited	British Virgin Islands/Hong Kong	Ordinary US$10,000	100	Investment holding
Peaktop Limited**	Hong Kong	Ordinary HK$100 Deferred * HK$18,720,000	100	Trading of giftware, gardening and water gardening products and investment holding
Fuqing Yuansheng Light Industrial Products Co., Ltd.	Mainland China	Registered US$5,200,000	100	Manufacture and export of giftware, gardening and water gardening products

19. INTERESTS IN SUBSIDIARIES *(continued)*

(c) Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Luhe Yuansheng Light Industrial Products Co., Ltd.	Mainland China	Registered US$3,000,000	100	Manufacture and export of giftware, gardening and water gardening products
Shenzhen Yuansheng Light Industrial Products Co., Ltd.	Mainland China	Registered RMB80,000,000	100	Manufacture and export of giftware, gardening and water gardening products
Yu Hua (Zhong Shan) Electrical Appliance Co., Ltd.	Mainland China	Registered HK$9,999,800	100	Manufacture and distribution of water pumps
Yu Hua (Hong Kong) Electrical Appliance Co., Ltd.	Hong Kong	Ordinary HK$10,000	100	Distribution of water pumps
Tai Hua (Zhong Shan) Electrical Appliance Co., Ltd.	Mainland China	Registered HK$3,500,000	100	Manufacture and distribution of water pumps
Silk Road Gifts, Inc.**	United States of America	Ordinary US$95,000	100	Wholesale of giftware and stationery and development of new products
HPT Group (USA), Inc.**	United States of America	Ordinary US$5,001,500	100	Investment holding

19. INTERESTS IN SUBSIDIARIES *(continued)*

(c) Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Heissner UK Limited**	United Kingdom	Ordinary £210,000	75.4	Distribution of gardening and water gardening products
Waterwerks Pty. Ltd.**	Australia	Ordinary AUD10,000	90	Distribution of gardening and water gardening products
Peaktop Technologies** (USA) Hong Kong Limited	Hong Kong	Ordinary HK$10,000	51	Distribution of gardening and water gardening products
Peaktop (Vietnam) Limited**	Vietnam	Registered US$2,000,000	100	Manufacture and export of candle products

Except for Peaktop Investment Holdings (B.V.I.) Limited, all other subsidiaries listed above are indirectly held by the Company.

All the subsidiaries established in Mainland China were registered as wholly-owned foreign enterprises.

* The deferred shares carry no rights to dividends (other than a dividend at a fixed rate of 1% per annum on the excess of the net profits that the Company may determine to distribute in respect of any financial year over HK$1,000,000,000,000,000), no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than 1% of the surplus assets of the company available for distribution after a total of HK$100,000,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).

** Not audited by CCIF CPA Limited.

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

20. INTERESTS IN AN ASSOCIATE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets	**83**	83
Due from associates	**171**	168
	254	251
Less: impairment	**(300)**	(300)
	(46)	(49)

The balances with the associate are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from associates approximate to their fair values.

Particulars of the Group's associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Yuan Hua International Investment Company Limited ("Yuan Hua")**	Ordinary shares of HK$1 each	Hong Kong	30	Dormant

** Not audited by CCIF CPA Limited.

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company. The Group's voting power held and profit sharing arrangement in relation to Yuan Hua is 30%. The above associate has been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2006	2005
	HK$'000	*HK$'000*
Assets	**3**	3
Liabilities	**(593)**	(593)
Capital deficiency	**(590)**	(587)
Revenues	**–**	–
Profit	**(3)**	(3)

21. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Unlisted equity investments outside Hong Kong, at cost	**12,707**	4,287

(a) The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate.

(b) The directors are of the opinion that the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, accordingly, such securities are stated at cost less any impairment losses.

(c) In 2006, the Group disposed of its 80% equity interest in Heissner AG. Upon completion of the transaction, the Group held 18.1% equity interest in Heissner AG and accounted for the investment in Heissner AG as available-for-sale equity securities.

22. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT AND LOSS

	Group	
	2006	2005
	HK$'000	*HK$'000*
At fair value		
Unlisted, outside Hong Kong	**20,460**	–

In 2006, the Group disposed of its 81% equity interest in Heissner AG (the "Sale Shares"), a former subsidiary of the Company, to Deciso XXXVIII GmbH (the "Purchaser"). The purchase price will vary between zero to Euro€2.5 million by reference to the performance of Heissner AG and its subsidiaries (collectively "Heissner Group"). The Group may demand the retransfer of the Sale Shares back to the Group, if the consideration is zero unless the Purchaser elects to pay a purchase price of Euro€1 million. Further details are set out in the announcement dated 27 April 2006 issued by the Company.

Fair value at the balance sheet date is determined by the directors based on the valuation assessed by RHL Appraisal Ltd., independent professionally qualified valuers.

23. TRADING SECURITIES

	Group and Company	
	2006	2005
	HK$'000	*HK$'000*
At market value		
Unlisted investment funds in Hong Kong	**936**	–

24. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**60,721**	74,344
Work in progress	**16,660**	25,804
Finished goods	**75,471**	70,173
	152,852	170,321

At 31 December 2006, none of inventories carried at fair value less cost to sale (2005: Nil).

25. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 45 to 90 days, extending up to 120 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivable are non-interest-bearing.

25. ACCOUNTS AND BILLS RECEIVABLE *(continued)*

An aged analysis of the accounts and bills receivable as at the balance sheet date, based on payment due date and net of impairment for bad and doubtful debts, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current	**81,279**	93,446
30 – 60 days	**4,660**	8,556
61 – 90 days	**1,812**	9,101
Over 90 days	**1,439**	8,674
	89,190	119,777

At 31 December 2006, accounts and bills receivable of the Group of approximately HK$1,060,000 (2005: HK$1,901,000) were pledged to the Group's bankers to secure banking facilities granted to the Group, as further detailed in note 32 to the financial statements.

At 31 December 2006, the Group transferred certain bills of exchange amounting to HK$6,144,000 (2005: HK$14,709,000) to banks with recourse in exchange for cash. The proceeds from transferring the bills receivable of HK$6,144,000 (2005: HK$12,591,000) are accounted for as collateralized bank advances until the bills are collected or the Group makes good of any losses incurred by the banks.

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

	Group	
	2006	2005
	'000	*'000*
Renminbi	**8,395**	12,000
United States Dollars	**9,363**	12,000
Australian Dollars	**1,042**	2,386

All the accounts and bills receivable are expected to be received within one year.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the balance of the Group is the remaining sales proceeds of HK$2,032,000 (2005: HK$2,032,000) receivable from Newa-Techno, an independent party of the Group, for the disposal of Peaktop Technologies Italy s.r.l. ("Peaktop Italy"). Pursuant to the sales and purchase agreement entered into between the Group and Newa-Techno in the prior years, the Group disposed of the entire issued share capital of Peaktop Italy and a shareholder's loan in the sum of US$1,562,000 (equivalent to approximately HK$12,182,000) owing by Peaktop Italy to the Group for an aggregate consideration of US$800,000 (equivalent to approximately HK$6,240,000). In accordance with the sales and purchase agreement, the sales consideration of US$800,000 is to be settled as follows:

(i) US$400,000 (equivalent to approximately HK$3,120,000) was settled in cash;

(ii) US$250,000 (equivalent to approximately HK$1,950,000) will be satisfied by Newa-Techno providing, or procuring Peaktop Italy to provide, general research and development services in relation to water pumps used in the household indoor aquariums and water filtering systems to the Group on or before 31 December 2006, under the agreement between the Group and Newa-Techno, the completion date was extended to on or before 31 December 2007;

(iii) US$150,000 (equivalent to approximately HK$1,170,000) was satisfied by Newa-Techno providing, or procuring Peaktop Italy to provide, a 15% discount on the aggregate purchase price of US$1,000,000 (equivalent to approximately HK$7,800,000) on water pumps, to the Group on or before 31 December 2006 and, under the agreement between the Group and Newa-Techno, the completion date was extended to on or before 31 December 2007.

As at 31 December 2006 and 2005, unsettled portion of the research and development services and the purchase discount as stated in (ii) and (iii) above are recorded as other receivable, in the consolidated financial statements.

27. AMOUNTS DUE FROM A DISPOSAL GROUP/A RELATED COMPANY

At 31 December 2006, the amount due from Heissner AG was unsecured, interest free and has no fixed terms of repayment.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances		**20,683**	36,857	**25**	26
Time deposits		**8,110**	9,028	**3,110**	4,000
		28,793	45,885	**3,135**	4,026
Less: Pledged deposits	*32a(v)*	**(1,021)**	(968)	**–**	–
Cash and cash equivalents		**27,772**	44,917	**3,135**	4,026

As at 31 December 2006, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$2,067,000 (2005: HK$10,519,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximates to their fair values.

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

	Group		Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
Renminbi	**2,067**	10,956	**–**	–
United States Dollars	**1,750**	1,989	**3**	3
Australian Dollars	**307**	49	**–**	–

29. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 28 March 2006, the Group entered into a sales and transfer of shares agreement with an independent third party to dispose its 81% equity interest of Heissner AG, a then subsidiary of the Company, which engages in the distribution of gardening and water gardening products in Europe. The directors of the Company consider that the disposal of Heissner AG could reduce the Group's bank borrowings and further enhance the liquidity of the Group. The completion date for the disposal of Heissner AG is due on in 2006. As at 31 December 2005, final negotiations for the sale were in progress and Heissner AG was classified as a disposal group held for sale.

The results of Heissner AG are presented below:

	2006	2005
	HK$'000	*HK$'000*
Revenue	**225,562**	264,046
Expenses	**(198,447)**	(253,133)
Finance costs	**(6,723)**	(9,145)
Profit before taxation from the disposal	**20,392**	1,768
Taxation	**(317)**	574
Profit for the year from the disposal group	**20,075**	2,342

29. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(continued)*

The major classes of assets and liabilities of Heissner AG classified as held for sale as at 31 December 2005 are as follows:

	2005
	HK$'000
Assets	
Property, plant and equipment *(note a)*	63,165
Interests in associates	127
Available-for-sales equity investments	181
Deferred tax assets	10,379
Accounts and bills receivable *(note b)*	27,150
Prepayments, deposits and other receivables	16,533
Inventories	80,592
Cash and cash equivalents	1,074
Assets classified as held for sale	199,201
Liabilities	
Bank loans	96,768
Amount due to fellow subsidiaries	53,808
Accounts and bills payable *(note c)*	18,268
Other payables and accruals	8,493
Tax payable	245
Liabilities directly associated with the assets classified as held for sale	177,582
Net assets directly associated with the disposal group	21,619

(a) At 31 December 2005, freehold land and buildings amount to HK$51,806,000 included in disposal group above were pledged to secure general banking facilities granted to the disposal group. Floating charges over certain of the inventories and accounts and bills receivable, which are included in assets of a disposal group above, of approximately HK$64,385,000 and HK$11,000,000, respectively, were also pledged to secure general banking facilities granted to the disposal group.

(b) The accounts and bills receivable in a disposal group of HK$21,638,000 is current, the balance of HK$1,437,000 is aged 30-60 days and the remaining balance of HK$4,075,000 is aged 61-90 days.

(c) The trade payables included in a disposal group of HK$10,767,000 are current, the balance of HK$3,495,000 is aged 30-60 days, the balance of HK$920,000 is aged 61-90 days and the remaining balance of HK$5,964,000 is aged over 90 days.

30. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the trade and bills payables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current	**57,131**	76,354
30 – 60 days	**20,035**	14,552
61 – 90 days	**9,272**	16,654
Over 90 days	**10,472**	26,267
	96,910	133,827

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

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

	Group		Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
Renminbi	**9,174**	13,344	**–**	–
United States Dollars	**1,274**	2,775	**3**	–

31. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**11,013**	22,950	**–**	–
Accruals	**23,939**	27,093	**58**	78
	34,952	50,043	**58**	78

Included in the balance of other payables is an accrued sales commission of HK$189,000 (2005: HK$5,333,000) payable to a minority shareholder of a subsidiary, Geoglobal Partners LLC ("Geoglobal"). The amount due to Geoglobal is unsecured, interest-free and repayable on normal commercial terms.

Other payables are non-interest-bearing and have an average term of 60 days.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 HK$'000	Group 2005 HK$'000
Current				
Finance lease payables *(note 33)*	Prime+1.5%	2007	**1,345**	2,134
Bank overdrafts – secured	Prime/HIBOR +0.5-2.75%	On demand	**6,492**	13,624
Collateralised bank advance – secured	Prime	2007	**6,144**	12,591
Trust receipt loan	Prime/HIBOR +0.25-2.75%	2007	**141,888**	180,137
Bank loans – secured	Prime/SIBOR +0-2.75%	2007	**89,752**	111,558
			245,621	320,044
Non-current				
Finance lease payables *(note 33)*	Prime+1.5%	2008	**675**	1,515
Bank loans – secured	Prime+0.5%	2008	**4,677**	9,455
			5,352	10,970
			250,973	331,014
Analysed into:				
Interest-bearing bank borrowings repayable:				
Within one year or on demand			**245,621**	320,044
In the second year			**5,352**	10,287
In the third to fifth years, inclusive			**–**	683
			250,973	331,014

32. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Notes:

a) The Group's bank loans, overdrafts and trust receipt facilities are secured by the followings:

(i) corporate guarantees from the Company and certain subsidiaries of the Company;

(ii) first legal charges on certain buildings of the Group with a net carrying amount of approximately HK$68,708,000 (2005: HK$104,127,000) (note 14) and certain leasehold land of the Group with a net carrying amount of HK$30,000,000 (2005: HK$23,571,000) (note 16);

(iii) floating charges over certain of the Group's accounts and bills receivable of approximately HK$1,060,000 (2005: HK$1,901,000) (note 25);

(iv) floating charges over the assets of certain subsidiaries of the Group of HK$21,368,000 (2005: HK$20,249,000); and

(v) pledge over time deposits of HK$1,021,000 (2005: HK$968,000) (note 28).

(vi) In 2005, the Group's banking facilities were also secured by legal charges over the Group investments properties of HK$32,000,000 (note 15).

b) Interest-bearing bank borrowings of HK$164,110,000, HK$6,896,000, HK$72,980,000 and HK$6,987,000 are denominated in United States dollars, Hong Kong dollars, Renminbi and Australian dollars, respectively.

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Finance lease payables	**1,616**	**403**	2,215	1,434
Bank overdrafts – secured	**–**	**6,492**	–	13,624
Collateralised bank advance	**–**	**6,144**	–	12,591
Trust receipt loan	**–**	**141,887**	1,937	178,200
Bank loans – secured	**63,000**	**31,429**	75,534	45,479

The carrying amounts of the Group's current borrowings approximate their fair values. The carrying amounts and fair value of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair value	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease payables	**675**	1,515	**637**	1,402
Fixed rate bank loans	**4,677**	9,455	**4,275**	8,362
	5,352	10,970	**4,912**	9,764

The fair value of bank and other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

33. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery, equipment and motor vehicles for its manufacturing business in Mainland China and marketing activities in Australia. These leases are classified as finance leases and have remaining lease terms ranging from one to two years.

At 31 December 2006, the total future minimum lease payments under finance leases and their present values were as follows:

	Group			
	Minimum lease payments 2006 *HK$'000*	Minimum lease payments 2005 *HK$'000*	**Present value of minimum lease payments 2006 *HK$'000***	Present value of minimum lease payments 2005 *HK$'000*
Amounts payable:				
Within one year	**1,447**	2,359	**1,345**	2,134
In the second year	**694**	1,572	**675**	1,515
Total minimum finance lease payments	**2,141**	3,931	**2,020**	3,649
Future finance charges	**(121)**	(282)		
Total net finance lease payables	**2,020**	3,649		
Portion classified as current liabilities *(note 32)*	**(1,345)**	(2,134)		
Long term portion *(note 32)*	**675**	1,515		

34. TAX PAYABLE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Provision profits tax for the year	**638**	254
Provisional profit tax paid	**(1,319)**	(3,264)
	(681)	(3,010)
Balance of profits tax provision relating to prior years	**2,032**	3,124
	1,351	114

35. LOANS FROM DIRECTORS

At 31 December 2005, the loans from directors were unsecured and interest-free. The loan was repaid in full in 2006.

36. DEFERRED TAX

The movements in deferred tax liabilities and assets are as follows:

Deferred tax liabilities
Group

	2006			
	Accelerated tax depreciation	**Revaluation of properties**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January 2006	**649**	**–**	**740**	**1,389**
Deferred tax credited to the income statement during the year *(note 10)*	**113**	**–**	**–**	**113**
Exchange realignment	**33**	**–**	**–**	**33**
Gross deferred tax liabilities at 31 December 2006	**795**	**–**	**740**	**1,535**

36. DEFERRED TAX *(continued)*

Deferred tax assets

Group

	2006 Losses available for offset against future taxable profit ***HK$'000***
At 1 January 2006	**234**
Deferred tax credited to the income statement during the year *(note 10)*	**2,630**
Exchange realignment	**155**
Gross deferred tax assets at 31 December 2006	**3,019**
Deferred tax liabilities at 31 December 2006	**1,535**
Deferred tax assets at 31 December 2006	**(3,019)**
Net deferred tax assets at 31 December 2006	**(1,484)**

The movements in deferred tax liabilities and assets during prior year are as follows:

Deferred tax liabilities

Group

	2005			
	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 1 January 2005	2,134	15,508	740	18,382
Deferred tax credited to the income statement during the year *(note 10)*	(212)	(100)	–	(312)
Deferred tax credited to asset revaluation reserve during the year	–	(4,629)	–	(4,629)
Attributable to a disposal group *(note 29)*	(982)	(8,753)	–	(9,735)
Exchange realignment	(291)	(2,026)	–	(2,317)
Gross deferred tax liabilities at 31 December 2005	649	–	740	1,389

36. DEFERRED TAX *(continued)*

Deferred tax assets

Group

	2005 Losses available for offset against future taxable profit *HK$'000*
At 1 January 2005	22,880
Deferred tax credited to the income statement during the year *(note 10)*	635
Attributable to a disposal group *(note 29)*	(20,114)
Exchange realignment	(3,167)
Gross deferred tax assets at 31 December 2005	234
Deferred tax liabilities at 31 December 2005	1,389
Deferred tax assets at 31 December 2005	(234)
Net deferred tax liabilities at 31 December 2005	1,155

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through utilisation against future taxable profits is probable. The Group has unutilised tax losses of approximately HK$37,390,000 (2005: HK$94,610,000) which will be carried forward for deduction against future taxable income. The tax losses mainly relating to the companies in Hong Kong (2005: Hong Kong and Europe), can be carried forward indefinitely.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

37. SHARE CAPITAL

Shares

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
857,196,000 ordinary shares of HK$0.10 each	**85,720**	85,720

Share options

Details of the Company's share option scheme are included in note 38 to the financial statements.

38. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"). The purpose of the Scheme is to enable the Company to grant options to the eligible participants in recognition of their contribution to the Group. Subject to the terms of the Scheme, the directors may, at their absolute discretion, invite employees of the Group, including executive directors, non-executive directors of the Company or any of its subsidiaries, suppliers, consultants, agents and advisers, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for shares.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) at any time under this scheme shall not, when aggregated with any shares subject to any other schemes involving the issue or grant of option over shares by the Company, or for the benefit of the eligible participants, exceed such number of shares as shall represent 10% of the issued share capital of the Company at the adoption date (the "Scheme Mandate Limit"). Options that lapse in accordance with the terms of this scheme will not be counted for the purpose of calculating the Scheme Mandate Limit unless the Company obtains a fresh approval from shareholders to renew the 10% limit provided that the maximum number of shares in respect of which options may be granted under the Scheme together with any options outstanding and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the issued shares from time to time.

The total number of shares issued and to be issued on the exercise of options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of the grant of each eligible participant shall not exceed 1% of the total issued shares.

The offer of a grant of share option may be accepted within a period of 28 days from the date of offer. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the eligible participant together with the consideration of HK$1.00 is received by the Company.

38. SHARE OPTION SCHEME *(continued)*

The exercise price for shares will not be less than the higher of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of the grant.

An option may be exercised at any time during the period to be determined and identified by the board to each grantee at the time of making an offer for the grant of an option, but in any event no later than 10 years from the adoption date but subject to the early termination of the new share option scheme.

No share options were granted during the year and there were no outstanding share options under the Scheme at the balance sheet date (2005: Nil).

39. RESERVES AND MINORITY INTERESTS

(a) Group

	Attributable to equity holders of the Company								
	Share premium	Contributed surplus	Exchange reserve	Asset revaluation reserve	Statutory reserve	Retained profits	Total reserves	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Group									
At 1 January 2006	99,260	18,528	722	3,986	22,779	5,299	150,574	1,261	151,835
Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of an overseas branch	–	–	6,802	–	–	–	6,802	97	6,899
Disposal of a disposed group	–	–	2,253	(3,115)	–	–	(862)	(1,099)	(1,961)
Disposal of a subsidiary	–	–	8	–	–	–	8	–	8
Net Profit for the year	–	–	–	–	–	13,766	13,766	(58)	13,708
Transfer to reserve	–	–	–	–	1,007	(1,007)	–	–	–
At 31 December 2006	99,260	18,528	9,785	871	23,786	18,058	170,288	201	170,489

39. RESERVES AND MINORITY INTERESTS *(continued)*

	Attributable to equity holders of the Company								
	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000	Retained profits HK$'000	Total reserves HK$'000	Minority interests HK$'000	Total HK$'000
Group									
At 1 January 2005	94,478	18,528	4,265	10,438	21,496	23,306	172,511	2,253	174,764
Issue of shares	4,924	–	–	–	–	–	4,924	–	4,924
Share issue expenses	(142)	–	–	–	–	–	(142)	–	(142)
Deficit on revaluation of freehold land and buildings	–	–	(1,535)	(6,452)	–	–	(7,987)	–	(7,987)
Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of an overseas branch	–	–	(2,008)	–	–	–	(2,008)	(191)	(2,199)
Net loss for the year	–	–	–	–	–	(16,724)	(16,724)	(801)	(17,525)
Transfer to reserve	–	–	–	–	1,283	(1,283)	–	–	–
At 31 December 2005	99,260	18,528	722	3,986	22,779	5,299	150,574	1,261	151,835

39. RESERVES AND MINORITY INTERESTS *(continued)*

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2005	94,478	75,131	(1,995)	167,614
Issue of shares *(note i)*	4,924	–	–	4,924
Share issue expenses *(note i)*	(142)	–	–	(142)
Net loss for the year	–	–	(20,617)	(20,617)
At 31 December 2005 and 1 January 2006	99,260	75,131	(22,612)	151,779
Net loss for the year	–	–	(2,566)	(2,566)
At 31 December 2006	99,260	75,131	(25,178)	149,213

Notes:

(i) On 18 May 2005, the Company entered into the capitalization agreements with each of Mr. Lim Chun Kuei, Mr. Andree Halim and Mr. Ng Kin Nam, directors of the Company, pursuant to which Mr. Lin, Mr. Halim and Mr. Ng have conditionally agreed to subscribe for 42,086,000 new shares each in cash, at a subscription price of approximately HK$0.139 per share by capitalizing their shareholder's loans.

As at the date of the capitalization agreements, the Company was indebted to each of Mr. Lin, Mr. Halim and Mr. Ng in the sum of US$750,000 (equivalent to approximately HK$5,850,000) each. The subscription price payable by each of the directors under the capitalization agreements will be satisfied by capitalizing the entire amount of the shareholders' loans due from the Company to Mr. Lin, Mr. Halim and Mr. Ng in aggregated of HK$17,550,000. On 7 July 2005, the Company issued 126,258,000 shares of HK$0.1 each to the directors by capitalizing the shareholders' loans at a subscription price HK$0.139 per share pursuant to the capitalization agreements.

	Number of shares in issue *'000*	Issued share capital *HK$'000*	Share premium *HK$'000*	Total *HK$'000*
At 1 January 2005	730,938	73,094	94,478	167,572
Issues of shares	126,258	12,626	4,924	17,550
	857,196	85,720	99,402	185,122
Share issue expenses	-	-	(142)	(142)
At 31 December 2005	857,196	85,720	99,260	184,980

39. RESERVES AND MINORITY INTERESTS *(continued)*

(b) Company *(continued)*

Notes: (continued)

(ii) Share premium

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

(iii) Contributed surplus

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange therefore in connection with the Group's reorganisation in 1997.

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired over the nominal value of the shares of the Company issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for cash distribution and/or distribution in specie under certain circumstances prescribed by Section 54 thereof.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2.4.

(v) Asset revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 2.4.

(vi) Statutory reserve

In accordance with the relevant Mainland China regulations, subsidiaries of the Company established in Mainland China is required to transfer a certain percentage of its profits after tax, if any, to the statutory reserve. Subject to certain restrictions set out in the relevant Mainland China regulations, the statutory reserve may be used to offset accumulated losses of the subsidiary.

(vii) Distributability of reserves

The Company has reserves available for distribution to equity holders of the Company for the amount of HK$49,953,000 (2005: HK$52,519,000).

40. DISPOSAL OF SUBSIDIARIES

(a) Disposal of subsidiaries

	Note	2006 *HK$'000*
Net assets disposed of:		
Property, plant and equipment		**68,628**
Goodwill		**762**
Available-for-sale equity investments /investments securities		**229**
Inventories		**75,560**
Accounts receivable		**29,684**
Prepayments, deposits and other receivables		**19,878**
Deferred tax assets		**11,236**
Cash and cash equivalents		**858**
Bank loans		**(95,902)**
Accounts and bills payables		**(14,944)**
Other payables and accruals		**(51,095)**
Minority interests *(note 39)*		**(1,099)**
		43,795
Accrued expenses incurred by the Group on the disposal of subsidiaries		**(811)**
Exchange fluctuation reserve released on disposal of disposal group *(note 39)*		**(2,261)**
Exchange fluctuation reserve released on disposal of a subsidiary *(note 39)*		**3,115**
Loss on disposal of subsidiaries, net	*6*	**(14,958)**
		28,880
Satisfied by:		
Cash		**–**
Financial asset at fair value through profit or loss		**20,460**
Available-for-sale equity investments		**8,420**
		28,880

40. DISPOSAL OF SUBSIDIARIES *(continued)*

(a) Disposal of subsidiaries *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2006
	HK$'000
Cash and bank balances disposed of	**858**
Bank overdrafts disposed of	**811**
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**1,669**

(b) Major non-cash transactions

(i) In the prior year, the Group capitalised the loans from Mr. Lin, Mr. Halim and Mr. Ng in the amount of US$450,000 each (equivalent to approximately HK$3,900,000) as share capital and share premium of the Company.

(ii) In the prior year, the Group capitalised interest expenses of HK$195,000 in property, plant and equipment (note 14).

(iii) In the prior year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the lease of HK$4,846,000.

41. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Standby letter of credit to an independent party	**–**	7,800	**–**	–
Guarantees of banking facilities granted to subsidiaries	**–**	–	**383,802**	399,845
Guarantees of finance leases granted to subsidiaries	**–**	–	**–**	47,400

As at the balance sheet date, the Company has issued several single guarantees to the bank in respect of banking facility granted to subsidiaries without expiry date.

The Company is also one of the entities covered by cross guarantee arrangement issued by the Company and its subsidiaries to banks in respect of banking facilities granted to the group which remain in force so long as the group has drawn down under the banking facilities. Under the guarantee, 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 guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is the outstanding amount of the facility drawn down by the subsidiaries of HK$383,802,000 (2005: HK$399,845,000). The maximum liability of the company at the balance sheet date under the cross guarantee is the amount of the facilities drawn down by all the subsidiaries that are covered by the cross guarantee, being HK$176,665,000.

Deferred income in respect of the single guarantees issued is disclosed in note 26. The Company has not recognised any deferred income in respect of the cross guarantee as its fair value cannot be reliably measured and its transaction price was HK$Nil.

At the balance sheet date, banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$209,855,000 (2005: HK$291,721,000).

41. CONTINGENT LIABILITIES *(continued)*

(b) At 31 December 2006, the Group had a number of current employees who have completed the required number of years of service to the Group under the Hong Kong Employment Ordinance (the "Employment Ordinance") in order to be eligible for long service payments if their employment is terminated under certain circumstances. If the employment of all these employees were terminated on 31 December 2006 under circumstances meeting the requirements of the Employment Ordinance, the Group's contingent liability in respect of possible future long service payments at that date would have been approximately HK$491,000 (2005: HK$872,000). A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

42. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**274**	830
In the second to fifth years, inclusive	**–**	202
	274	1,032

(b) As lessee

The Group leases certain of its office and factory properties under operating lease arrangements which are negotiated for terms ranging from one to fifty years.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**4,761**	3,104
In the second to fifth years, inclusive	**13,392**	6,746
Over five years	**38,995**	43,109
	57,148	52,959

43. COMMITMENTS

In addition to the operating lease commitments detailed in note 41 above, the Group had the following commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Capital commitments contracted, but not provided for		
Buildings	**15,341**	15,098
Leasehold improvements	**–**	871
Capital contributions payable to wholly-owned subsidiaries	**–**	1,092
	15,341	17,061

The Company did not have any other significant commitments at the balance sheet date (2005: Nil).

44. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances set out elsewhere in these financial statements, during the year, the Group entered into the following material related party transactions.

(i) The Group has paid approximately HK$140,400 (2005: HK$1,400,694) of product design and research expenses to a company owned by Mr. Graeme Stanley Pope, a former director of the Company, for the development of new products.

(ii) Pursuant to an agreement dated 9 January 2004 (the "Agreement") entered into between the Group and Geoglobal, a company which holds 49% of the subsidiaries, Peaktop Technologies (USA) Hong Kong Limited and Peaktop Technologies (USA), Inc., the Group and Geoglobal agreed to share the net profit on those sales introduced by Geoglobal in accordance with the Agreement or in other proportion as agreed otherwise. During the year, the Group charged to the income statement of such profit amounted to HK$78,645,000 (2005: HK$76,017,000) in the form of sales commission. The accrued sales commission payable to Geoglobal amounted to HK$189,000 (2005: HK$5,333,000) as at 31 December 2006.

The above related party transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Compensation of key management personnel of the Group:

	2006	2005
	HK$'000	*HK$'000*
Short term employee benefits	**9,686**	11,658

Further details of directors' emoluments are included in note 8 to the financial statements.

44. RELATED PARTY TRANSACTIONS *(continued)*

The Group's principal financial instruments, other than derivatives comprise bank loans, other interest-bearing loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group does not hedge interest rate fluctuations. In the opinion of the debtors, the Group has no significant interest rate risk due to the short maturity of the Group's interest-bearing bank and other borrowings.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Most of the Group's sales are denominated in United States dollars. As the Hong Kong dollar is pagged to the United States dollar, the Group does not ledge its foreign currency risk. Almost 93% of the Group's purchases and expenses are denominated in the unit's functional currency or United States dollars. The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group mainly trades with recognised and creditworthy third parties. It is the Group's policy that credit terms are granted subject to in-depth credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and substantially covered by credit insurance. In this regard, the management of the Company considers that the Group's credit risk is minimal.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group mainly trades with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, other interest-bearing loans and finance leases. The Group maintains good working relations with its bankers and ensures compliance with covenants as stipulated in the loans and finance lease agreements.

45. LITIGATIONS

The Group has the following outstanding litigations:

(i) On 22 February 2007, a subsidiary of the Company has been served a winding-up petition under section 177(1)(f) of the Companies Ordinance from one of its shareholders who was also a director of the subsidiary. Another subsidiary of the Company, being a shareholder of the aforementioned subsidiary, was named as the 2nd respondent in the petition. This winding-up proceedings is in its initial stage and the respondent subsidiary will defend this winding-up proceedings.

(ii) On 27 September 2006, the subsidiaries of the Company have instituted legal proceedings against, inter alia, the former directors and a shareholder of a subsidiary of the Company, claiming for injunction from using the confidential information of such subsidiaries and delivery up of all documents and materials. This case is in its initial stage.

(iii) On 22 November 2006, two former directors of a subsidiary of the Company commenced a legal action against such subsidiary for an order to inspect the books and records of such subsidiary.

(iv) On 25 September 2006, a subsidiary of the Company filed a complaint against former directors and a shareholder of a subsidiary of the Company, claiming for unfair competition, misappropriation of confidential and proprietary information that belongs to the Group, and breach of fiduciary duties. This case is in its initial stage.

(v) On 9 October 2006, a shareholder of a subsidiary of the Company filed a shareholder compliant against subsidiaries suing the defendants for, among others, breaching fiduciary duties and trade disparagement. Subsequent to the balance sheet date, the defendants entered an order staying this legal action in all respects pending resolution described in note 45(iv).

(vi) On 3 April 2007, a shareholder of a subsidiary of the Company filed a complaint against the Company, a subsidiary of the Group for trademark infringement and unfair competition. This case is in its initial stage.

In the opinion of the directors, it is not possible that it would result in an outflow of economic benefits. Accordingly, no provision in respect thereof has been made in the financial statements.

46. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2007.