NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Suite 3008, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 31 to the financial statements.

2. GOING CONCERN BASIS

The Group incurred a loss attributable to equity holders of the Company of HK$11,980,000 for the year ended 31 December 2006 and as at 31 December 2006 the Group had net current liabilities and net liabilities of HK$45,823,000 and HK$26,066,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of a substantial shareholder, Tees Corporation, at a level sufficient to finance the working capital requirements of the Group. The substantial shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting polices and amounts reported for the current year and prior years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. ADOPTION OF NEW AND REVISED HKFRSs *(Continued)*

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and available-for-sale financial assets which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation *(Continued)*

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

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

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Associates *(Continued)*

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

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

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

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

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

— All resulting exchange differences are recognised in the foreign currency translation reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(iii) Translation on consolidation *(Continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Land and buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Revaluation increases of land and buildings are recognised in the income statement to the extent that the increases reverse previous revaluation decreases of the same asset. All other revaluation increases are credited to the property revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same asset are charged against property revaluation reserve directly in equity. All other decreases are recognised in the income statement. On the subsequent sale or retirement of a revalued land and buildings, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Land and buildings	30 years
Leasehold improvements	Over the unexpired term of the lease
Plant and machinery	5 years
Furniture, fixtures, office equipment and motor vehicles	5 years
Moulds and tools	5 years

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

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

(f) Operating leases

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

(g) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are investments not classified as held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised directly in equity, until the investments are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the income statement.

Impairment losses recognised in the income statement for equity investments classified as available-for-sale financial assets are not subsequently reversed through the income statement. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in the income statement if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

(j) Trade and other receivables

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

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' 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 receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

(n) Trade and other payables

Trade and other payables are stated initially at their fair value and 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.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Revenue recognition *(Continued)*

Revenues from the sales of manufactured goods and trading of raw materials and moulds are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

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

Rental income is recognised on a straight-line basis over the lease term.

(p) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to employees in Hong Kong. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

Subsidiaries incorporated in the People's Republic of China ("PRC") participate in the retirement schemes operated by the local authorities for the Group's employees in the PRC. Contributions to these schemes are charged to the consolidated income statement when incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

(iii) Termination benefits

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

(q) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

(r) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Taxation *(Continued)*

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment.

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

(u) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except inventories, receivables and investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Impairment of assets *(Continued)*

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(v) Provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow 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 is remote.

(w) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements apart from those involving estimations, which are dealt with below.

(a) Going concern basis

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of a substantial shareholder of the Company at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2 to the financial statements.

(b) Split of land and building elements

The Group determines that the lease payments cannot be allocated reliably between the land and building elements. Accordingly the entire lease of land and buildings is classified as land and buildings and included under property, plant and equipment.

Key sources of 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.

(c) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount required involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

(c) Liquidity risk

The Group is exposed to liquidity risk. At 31 December 2006, the Group had net current liabilities and net liabilities of HK$45,823,000 and HK$26,066,000 respectively. The maintenance of the Group as a going concern is significantly dependent on the future improvement of the Group's profitability and cash flows from its operation and the availability of continuous funding from a substantial shareholder of the Company, Tees Corporation as described in note 2 to the financial statements.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to interest-rate risk arises from its borrowings and unsecured other loans. These borrowings bear interests at variable rates varied with the then prevailing market condition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

7. TURNOVER

The Group's turnover represents the aggregate of sales value of goods supplied to customers less goods returned, trade discounts and sales tax. The amount of revenue recognised in turnover during the year represents manufacture and sale of healthcare and household products.

8. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Net gain on disposal and written off of property, plant and equipment	**112**	336
Income from moulds sales, net	**837**	—
Income from scrap sales	**629**	919
Interest income	**83**	15
Net foreign exchange gain	**1,864**	852
Rental income	**19**	18
Reversal of bad debt allowance	**24**	—
Others	**394**	285
	3,962	2,425

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

9. SEGMENT INFORMATION

(a) Primary reporting format — business segments

The Group has been operating in a single business segment, that is the manufacture and sale of healthcare and household products.

(b) Secondary reporting format — geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments.

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

	North America		Europe		The PRC		Hong Kong and others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**85,865**	85,103	**59,059**	51,250	**—**	—	**29,353**	31,954	**174,277**	168,307
Segment assets	**—**	—	**—**	—	**39,945**	46,785	**31,202**	27,513	**71,147**	74,298
Capital expenditure incurred during the year	**—**	—	**—**	—	**4,988**	4,520	**265**	319	**5,253**	4,839

10. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans	**814**	644
Interest on other loans wholly repayable within five years	**909**	1,017
	1,723	1,661

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

11. INCOME TAX EXPENSE

(a) No provision for Hong Kong Profits Tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong.

Tax charge 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, interpretation and practices in respect thereof.

Pursuant to relevant laws and regulations in the PRC, the subsidiary in the PRC is exempted from PRC enterprise income tax for the two years from its first profit-making year and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. The subsidiary in the PRC was in its second profit-making year for the financial year ended 31 December 2006. Thus, no provision was made for the financial year ended 31 December 2006.

(b) The reconciliation between the income tax credit and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2006	2005
	HK$'000	*HK$'000*
Loss before tax	**(11,980)**	(27,223)
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	**(2,097)**	(4,764)
Tax effect of income that is not taxable	**(423)**	(402)
Tax effect of expenses that are not deductible	**2,872**	5,584
Tax effect of tax losses not recognised	**554**	426
Tax effect of utilisation of tax losses not previously recognised	**(560)**	(844)
Tax effect of temporary differences not recognised	**34**	—
Tax effect of PRC tax holiday	**(380)**	—
Income tax expense	**—**	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

12. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2006	2005
	HK$'000	*HK$'000*
Depreciation	**5,033**	4,963
Impairment of available-for-sale financial assets	**—**	1,791
Loss on disposal of available-for-sale financial assets	**2,110**	—
Operating lease charges in respect of land and buildings	**2,697**	2,549
Research and development costs*	**2,923**	3,498
Auditors' remuneration	**600**	600
Cost of inventories sold#	**136,947**	129,236
Impairment on interests in associates		
(included in other operating expenses)	**—**	12,266
Write off of other receivables	**—**	1,139
Staff costs including directors' remuneration		
Salaries, bonus and allowances	**40,792**	37,566
Retirement benefit scheme contributions	**471**	547
	41,263	38,113

* Research and development costs include staff costs of approximately HK$2,416,000 (2005: HK$3,167,000) which are included in the amount disclosed separately above.

\# Cost of inventories sold includes staff costs and depreciation of approximately HK$22,039,000 (2005: HK$18,355,000), which are included in the amounts disclosed separately above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of emoluments of the directors of the Company disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

For the year ended 31 December 2006

	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Employee share option benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of director						
Executive directors						
Mr. Leung Chung Shan	—	3,174	—	—	17	3,191
Mr. Tam Lup Wai, Franky	—	1,300	—	—	17	1,317
Mr. Chiu Wing Keung *(note (a))*	—	325	—	—	5	330
Independent non-executive directors						
Mr. Chow Siu Ngor	120	—	—	—	—	120
Mr. Ting Leung Huel, Stephen	120	—	—	—	—	120
Mr. Lam Bing Kwan	60	—	—	—	—	60
	300	4,799	—	—	39	5,138

Note (a) — Mr. Chiu Wing Keung resigned on 1 June 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

For the year ended 31 December 2005

	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Employee share option benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of director						
Executive directors						
Mr. Leung Chung Shan	—	3,232	—	—	34	3,266
Mr. Tam Lup Wai, Franky	—	1,300	—	—	37	1,337
Mr. Chiu Wing Keung	—	845	—	—	27	872
Independent non-executive directors						
Mr. Chow Siu Ngor	120	—	—	—	—	120
Mr. Ting Leung Huel, Stephen	120	—	—	—	—	120
Mr. Lam Bing Kwan	60	—	—	—	—	60
	300	5,377	—	—	98	5,775

During the year, no share options were granted to the directors.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2005: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

The five highest paid individuals in the Group during the year included two (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2005: two) individuals are set out below:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**2,690**	1,616
Retirement benefit scheme contributions	**96**	65
	2,786	1,681

The emoluments fell within the following band:

	Number of individuals	
	2006	2005
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	—
	3	2

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2006 (2005: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

15. LOSS PER SHARE

The calculation of basic and diluted loss per share are based on the following:

	2006	2005
	HK$'000	*HK$'000*
Loss		
Loss attributable to equity holders of the Company, used in the basic loss per share calculation	**11,980**	27,223
Number of shares		
Issued ordinary shares at beginning of year	**1,937,826,789**	1,937,826,789
Effect of shares issued on placement	**157,808,219**	—
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**2,095,635,008**	1,937,826,789

No diluted loss per share is presented as the inclusion of the effects of all potential dilutive ordinary shares would have an anti-dilutive effect on the basic loss per share for both the current and prior year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Optical fibre cable HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Moulds and tools HK$'000	Total HK$'000
Cost or valuation:							
At 1 January 2005	17,800	48,457	1,863	17,462	12,814	22,898	121,294
Additions	—	—	—	1,122	706	3,011	4,839
Disposals	—	—	—	—	—	(916)	(916)
Written off	—	—	—	(58)	(93)	—	(151)
Exchange difference	342	—	—	422	83	403	1,250
At 31 December 2005 and at 1 January 2006	18,142	48,457	1,863	18,948	13,510	25,396	126,316
Additions	—	—	—	1,476	1,367	2,410	5,253
Disposals	—	—	—	(651)	(84)	(1,258)	(1,993)
Written off	—	—	—	(151)	(296)	—	(447)
Exchange difference	726	—	—	904	197	536	2,363
At 31 December 2006	18,868	48,457	1,863	20,526	14,694	27,084	131,492
Accumulated depreciation and impairment:							
At 1 January 2005	848	48,457	1,500	14,865	11,451	18,473	95,594
Charge for the year	864	—	363	1,067	755	1,914	4,963
Disposals	—	—	—	—	—	(109)	(109)
Written off	—	—	—	(58)	(81)	—	(139)
Exchange difference	17	—	—	376	70	375	838
At 31 December 2005 and at 1 January 2006	1,729	48,457	1,863	16,250	12,195	20,653	101,147
Charge for the year	993	—	—	1,285	715	2,040	5,033
Disposals	—	—	—	(594)	(82)	(273)	(949)
Written off	—	—	—	(151)	(295)	—	(446)
Exchange difference	69	—	—	829	150	439	1,487
At 31 December 2006	2,791	48,457	1,863	17,619	12,683	22,859	106,272
Carrying amount:							
At 31 December 2006	16,077	—	—	2,907	2,011	4,225	25,220
At 31 December 2005	16,413	—	—	2,698	1,315	4,743	25,169
The analysis of the cost or valuation at 31 December 2006 of the above assets is as follows:							
At cost	—	48,457	1,863	20,526	14,694	27,084	112,624
At valuation 2003	18,868	—	—	—	—	—	18,868
	18,868	48,457	1,863	20,526	14,694	27,084	131,492
The analysis of the cost or valuation at 31 December 2005 of the above assets is as follows:							
At cost	—	48,457	1,863	18,948	13,510	25,396	108,174
At valuation 2003	18,142	—	—	—	—	—	18,142
	18,142	48,457	1,863	18,948	13,510	25,396	126,316

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) All land and buildings of the Group are outside Hong Kong under medium-term leases.

(b) The Group's land and buildings held for own use were revalued at 31 December 2003 on an open market value basis by CS Surveyors Limited, an independent firm of professional valuers.

Had the land and buildings held for own use been carried at historical cost less accumulated depreciation and impairment loss as at 31 December 2006 their carrying value would have been approximately HK$26,169,000 (2005: HK$27,261,000).

(c) At 31 December 2006, all land and buildings of the Group were pledged to secure certain loan facilities granted to the Group (note 24).

17. INTERESTS IN ASSOCIATES

	2006	2005
	HK$'000	*HK$'000*
Share of net assets	—	—
Goodwill	—	15,720
Impairment loss	—	(12,266)
	—	3,454
Amounts due to associates	—	(1,454)
	—	2,000

Details of the Group's associates at 31 December 2006 are as follows:

Name of associate	**Place of incorporation/ operation**	**Issued and paid up capital**	**Percentage of ownership interest/voting power/profit sharing**	**Principal activities**
Dynasty L.L.C.	United States of America	140,000 ordinary shares of US$1 each	50%	Dormant
Esterham Enterprise Inc.	BVI	2 ordinary shares of US$1 each	50%	Dormant

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

17. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information in respect of the Group's associates is set out below:

	2006	2005
	HK$'000	*HK$'000*
At 31 December 2006		
Total assets	—	24,593
Total liabilities	—	(29,447)
Net liabilities	—	(4,854)
Group's share of associates' net assets	—	—
Year ended 31 December 2006		
Total revenue	—	7,226
Total loss for the year	—	(9,351)
Group's share of associates' loss for the year	—	(1,911)

No share of Group's net assets and results for the year since the remaining associates are dormant for many years. Last year's amount represents financial information of an associate, namely, Chinese 2 Linux (Holdings) Limited, which was disposed of during the year.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group's available-for-sale financial assets was non-current in nature and represented 74,632,500 ordinary shares of MegaInfo Limited. All the ordinary shares were disposed of during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

19. OTHER NON-CURRENT ASSETS

It represented a quality guarantee deposit amounted to HK$44,933,000 paid to China Infohighway Communications Co., Ltd. ("IHW") pursuant to Cooperation Agreement and Supplemental Agreements (collectively "the Agreements") entered into between the Group and IHW on 19 December 2001. Under the Agreements the Group agreed to provide certain equipment and facilities as necessary for IHW's network infrastructure for a facility fee. In the event that the Group fails to provide the required equipment and facilities, IHW can make use of the deposit to purchase the required equipment and facilities. The deposit was unsecured, non-interest bearing and is repayable upon the expiry of the Agreements on 21 July 2019.

However, owing to the difficulty and complexity in securing a telecommunications service-operating permit in the PRC, the Group had decided to suspend the cooperation projects. The directors are currently negotiating a refund of the deposit with IHW but has been unable to reach an agreement.

As the recoverability of the deposit was uncertain, the directors considered that it is prudent to make full allowance of impairment of HK$44,933,000 against the deposit since the year ended 31 December 2003.

20. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Raw materials	**6,378**	7,982
Work in progress	**4,961**	7,127
Finished goods	**1,068**	2,931
	12,407	18,040

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

21. TRADE AND OTHER RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
Trade debtors and bills receivables *(notes (a) & (b))*	**21,238**	16,021
Other debtors, deposits and prepayments	**4,704**	4,430
Amounts due from associates *(note (c))*	**21**	21
	25,963	20,472

Notes:

(a) An ageing analysis of the Group's trade debtors and bills receivables, based on the invoice date, and net of allowances is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**13,413**	12,710
1 to 3 months overdue	**6,731**	3,067
More than 3 months overdue but less than 12 months overdue	**922**	105
More than 12 months overdue	**172**	139
	21,238	16,021

Trade debts are due within 30 to 45 days from the date of billing.

Trade receivables of HK$3,574,000 (2005: Nil) are assigned to a bank to secure banking facilities.

(b) The carrying amounts of the Group's trade debtors and bills receivables are all denominated in USD.

(c) Amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

22. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. The deposits are in Hong Kong dollars and at fixed interest rate of 3.55% (2005: 3.40%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

22. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES *(Continued)*

As at 31 December 2006, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$1,599,000 (2005: HK$1,299,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

23. TRADE AND OTHER PAYABLES

	2006 ***HK$'000***	2005 *HK$'000*
Trade creditors *(notes (a) & (b))*	**20,904**	23,339
Other creditors and accrued charges	**47,242**	44,827
Amount due to a substantial shareholder *(note (c))*	**40**	40
Amounts due to directors *(note (c))*	**7,260**	10,122
	75,446	78,328

Notes:

(a) An ageing analysis of the Group's trade creditors, based on the date of receipt of goods, is as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Due within 1 month or on demand	**12,217**	13,576
Due after 1 month but within 3 months	**5,837**	7,157
Due after 3 months but within 6 months	**1,285**	1,323
Due after 6 months	**1,565**	1,283
	20,904	23,339

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

23. TRADE AND OTHER PAYABLES *(Continued)*

Notes: (Continued)

(b) The carrying amounts of the Group's trade creditors are denominated in the following currencies:

	HKD *HK$'000*	USD *HK$'000*	RMB *HK$'000*	Total *HK$'000*
2006	**11,356**	**808**	**8,740**	**20,904**
2005	11,601	708	11,030	23,339

(c) Amount due to a substantial shareholder and amounts due to directors are unsecured, interest-free and have no fixed repayment terms.

24. BORROWINGS

	2006 ***HK$'000***	2005 *HK$'000*
Loans from financial institutions		
— unsecured *(note (a))*	**380**	8,249
— secured *(notes (b) & (d))*	**6,952**	8,269
	7,332	16,518
Secured bank loan *(notes (c) & (d))*	**3,574**	—
	10,906	16,518
The borrowings are repayable as follows:		
On demand or within one year	**5,443**	16,518
In the second year	**1,489**	—
In the third to fifth years, inclusive	**3,974**	—
	10,906	16,518
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(5,443)**	(16,518)
Amount due for settlement after 12 months	**5,463**	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

24. BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	HKD	USD	RMB	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2006	**380**	**3,574**	**6,952**	**10,906**
2005	8,249	—	8,269	16,518

Notes:

(a) The unsecured loan represents a revolving loan facilities to 31 March 2007 of HK$30 million, interest bearing at 3% per annum over the prevailing prime lending rate offered by The Hongkong and Shanghai Banking Corporation Limited. As at 31 December 2006, approximately HK$0.38 million (2005: HK$8.2 million) has been utilised. The revolving loan facilities was expired at 31 March 2007.

(b) Secured loans are arranged at floating interest rate with average rate of 6.39% (2005: 6.26%) per annum and expose the Group to cash flow interest rate risk.

(c) Secured bank loan is arranged at interest rate of 1% per annum over the standard bills rate quoted by the bank (2005: Nil) and expose the Group to cash flow interest rate risk.

(d) The secured loans are secured over the Group's leasehold land and buildings held for own use situated outside Hong Kong with a carrying amount of approximately HK$16 million (2005: HK$16 million), fixed deposit approximately HK$1.6 million (2005: HK$1.5 million), the Company's guarantee and certain trade receivables of a subsidiary.

(e) At 31 December 2006, the Group had available HK$38 million (2005: HK$39 million) undrawn borrowing facilities.

25. UNSECURED OTHER LOANS

On 1 February 2000, pursuant to a placing and underwriting agreement dated 16 December 1999 entered into between the Company and independent placing agents, 4% convertible notes with an aggregate principal amount of HK$9 million were issued (the "Notes"). The Notes were convertible to ordinary shares of HK$0.05 each of the Company at any time between 1 April 2000 and 27 January 2002 and Notes of HK$2.5 million were subsequently converted during 2000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

25. UNSECURED OTHER LOANS *(Continued)*

Prior to maturity, holders of the remaining Notes of approximately HK$6.5 million had not exercised the conversion right, therefore, the directors of the Company consider that the conversion right attaching to the Notes had lapsed. The Notes should be regarded as unsecured other loans and the outstanding balances together with accrued interest of approximately HK$7.8 million are due for repayment. As at the date of authorisation for issue of these financial statements, the Notes holders have not yet requested the Company to repay the loans.

26. DEFERRED TAX

At the balance sheet date the Group has unused tax losses of HK$25,305,000 (2005: HK$25,405,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

No provision for deferred taxation has been made in the financial statements as the tax effect of other temporary differences is immaterial to the Group.

27. RETIREMENT BENEFIT SCHEMES

(a) Employee retirement benefits

The Group operates a mandatory provident fund scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5% - 10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000 except for certain senior staff. Mandatory contributions to the scheme vest immediately.

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("Plans") organised by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other material obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

27. RETIREMENT BENEFIT SCHEMES *(Continued)*

(b) Equity compensation benefits

The Company has a share option scheme which was adopted on 2 June 1997 whereby the directors of the Company are authorised to invite employees of the Group, including the directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices per share on the Stock Exchange for the five business days immediately preceding the date of grant. The options vest after one year from the date of grant and are then exercisable within a period of ten years thereafter. Each option gives the holder the right to subscribe for one share. With effect from 1 September 2001, the Company needs to revise the terms of the existing scheme to comply with the requirements of Chapter 17 of the Listing Rules if the Company wishes to continue to grant options under the existing scheme.

Movements in share options are as follows:

	Number	
	2006	2005
At 1 January	**30,780,000**	30,780,000
Cancelled	**540,000**	—
At 31 December — options vested	**30,240,000**	30,780,000

The outstanding share options at the balance sheet dates were granted on 10 July 2000 and are exercisable for a period commencing from 10 July 2001 to 9 July 2010 at an exercise price of HK$0.392 per share. No other share options previously granted were exercised during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

28. SHARE CAPITAL

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
6,000,000,000 ordinary shares of $0.05 each	**300,000**	300,000

	2006		2005	
	No. of shares	**Amount**	No. of shares	Amount
		HK$'000		*HK$'000*
Issued and fully paid:				
At 1 January	**1,937,826,789**	**96,891**	1,937,826,789	96,891
Issue of shares on placement *(note)*	**360,000,000**	**18,000**	—	—
At 31 December	**2,297,826,789**	**114,891**	1,937,826,789	96,891

Note: On 15 June 2006, the Company entered into a placing agreement ("the Placing Agreement") with Drake and Morgan Limited ("the Placing Agent"). Pursuant to the Placing Agreement, the Placing Agent on a best effort basis, places up to 360,000,000 ordinary shares of the Company of HK$0.05 each to not less than 6 placees at a price of HK$0.05 per share. The placement was completed on 25 July 2006. Total proceeds of the placement amounted to approximately HK$18 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

29. BALANCE SHEET OF THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
Investments in subsidiaries	**191,351**	191,351
Due from subsidiaries	**1,458,276**	1,449,912
Impairment loss on investments and amounts due from subsidiaries	**(1,641,199)**	(1,641,199)
Other current assets	**551**	28
Due to subsidiaries	**(27,488)**	(24,554)
Other current liabilities	**(14,209)**	(25,090)
NET LIABILITIES	**(32,718)**	(49,552)
Share capital	**114,891**	96,891
Reserves	**(147,609)**	(146,443)
CAPITAL DEFICIENCY	**(32,718)**	(49,552)

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

30. RESERVES *(Continued)*

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000	Warrant reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	1,392,241	9,354	24,226	(1,570,493)	(144,672)
Loss for the year	—	—	—	(1,771)	(1,771)
At 31 December 2005	1,392,241	9,354	24,226	(1,572,264)	(146,443)
At 1 January 2006	1,392,241	9,354	24,226	(1,572,264)	(146,443)
Loss for the year				(1,166)	(1,166)
At 31 December 2006	1,392,241	9,354	24,226	(1,573,430)	(147,609)

(c) Nature and purpose of reserves

(i) Share premium account

Under the Bye-laws of the Company, the share premium is not distributable but may be applied in paying up unissued shares of the Company to be issued to shareholders of the Company as fully paid bonus shares.

(ii) Contributed surplus

The contributed surplus of the Company arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 1997 and represented the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

Under the Companies Act of Bermuda, the Company may make distributions to its members out of the contributed surplus, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, issued share capital and reserves.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

30. RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(iii) Warrant reserve

The warrant reserve represents the proceeds received from the issue of 370,000,000 warrants at a placing price of HK$0.07 per warrant on 27 November 2003, net of warrant issue expenses. The trading of the warrants on the Stock Exchange had ceased after 2 December 2004 and the listing of the warrants on the Stock Exchange was withdrawn from 4 December 2004. The subscription rights attaching to the warrants had expired on 7 December 2004. The Company had 365,880,000 outstanding warrants not exercised.

31. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2006 are as follows:

Name of company	Place of incorporation/ operation	Issued share and paid up capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
Dongguan Fairform Creative Company Limited *(note (a))* *	The PRC	Registered capital HK$8,000,000	—	100%	Manufacture and trading of healthcare and household products
Dongguan Weihang Electrical Product Company Limited *(note (b))*	The PRC	Registered capital US$9,000,000	—	100%	Manufacture and trading of healthcare and household products
eForce Management Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	—	Provision of management services
eForce Project Services Limited	British Virgin Islands ("BVI")	1 share of US$1 each	100%	—	Provision of management consultancy services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

31. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operation	Issued share and paid up capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
Fairform Group Limited	BVI	15,700,200 shares of US$1 each	100%	—	Investment holding
Fairform Holdings Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	—	Dormant
Fairform Manufacturing Company Limited	Hong Kong	138,750,000 ordinary shares of HK$1 each and 250,000 non-voting deferred shares of HK$1 each	—	100%	Manufacturing and trading of healthcare and household products
Gainford International Inc.	BVI	50 shares of US$1 each	—	100%	Investment holding
Oasis Global Limited	BVI	10 shares of US$1 each	—	100%	Trademark holding
Qesco International (H.K.) Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	—	100%	Trademark holding

Notes:

(a) Dongguan Fairform Creative Company Limited is a wholly foreign owned enterprise with an operating period of 12 years expiring on 8 September 2017.

(b) Dongguan Weihang Electrical Product Company Limited is a wholly foreign owned enterprise with an operating period of 30 years expiring on 10 April 2024.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* *For identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of a subsidiary

	2006	2005
	HK$'000	*HK$'000*
Net assets disposed of:		
Interest in associates	**38,250**	—
Less: Impairment allowance	**(36,250)**	—
Net assets disposed of	**2,000**	—
Total consideration — satisfied by cash	**2,000**	—
Net cash inflow in respect of disposal of a subsidiary	**2,000**	—

No gain or loss on disposal of the subsidiary is recognised in the income statement as the total consideration is equivalent to the net assets disposed of. The subsidiary disposed of had no significant impact on the turnover, results and cash flows of the Group during the year.

33. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities at 31 December 2006.

34. COMMITMENTS

At 31 December 2006, the Group has the following capital commitments outstanding and not provided for in the financial statements:

	2006	2005
	HK$'000	*HK$'000*
Contracted for:		
Quality guarantee deposit	**17,500**	17,500

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

35. LEASE COMMITMENTS

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,650**	2,743
In the second to fifth years inclusive	**1,166**	732
After five years	**7,955**	7,835
	10,771	11,310

The Group leases a number of properties under operating leases. The leases run for an initial period from 1.5 to 50 years, with an option to renew the lease and renegotiate the terms at the expiry date or dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19 April 2007.