Notes to
the Financial Statements

For the year ended 31 December 2006

1. General information

The principal activity of Swank International Manufacturing Company Limited (the "Company") is investment holding. During the year, the principal activities of its subsidiaries (the Company and its subsidiaries are collectively referred to the "Group") are the trading and manufacturing of phosphoric acid, design, manufacturing and sale of optical products.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suite 1102, 11/F, ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

The financial statements are presented in Hong Kong dollars which is also the functional currency of the Company.

2. Summary of significant accounting policies

(a) Going concern concept

The financial statements have been prepared on a going concern basis. The Group had a loss of approximately HK$14,510,000 and net liabilities of approximately HK$8,784,000 and its continuance in business as a going concern is dependent upon the Group having future profitable operations and continuing financial support from the shareholder of the Group ("Probest"). The financial statements have been prepared on a going concern basis as Probest has agreed to provide continuing financial support to the Group.

(b) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2. Summary of significant accounting policies (cont'd)

(c) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries and the Group's interests in associates. The consolidated financial statements have been prepared under the historical cost convention except that the following asset is stated at their fair value as explained in the accounting policies set out below:

– Property, plant and equipment (see note 2(f))

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

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

(d) Subsidiary

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

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

Minority interests represent the portion of the net asset of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

2. Summary of significant accounting policies (cont'd)

(d) Subsidiary (cont'd)

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2 (h) (i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sales).

(e) Associate

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

An investment in associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. The consolidated income statement of the Group includes its share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses exceeds its interest in the associate, the Group discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Profits and losses resulting from the Group's transactions with the associate are eliminated to the extent of the Group's relevant interests in the associate, except where the losses provide evidence of an impairment of the asset transferred in which case losses are recognised immediately for the impairment.

2. Summary of significant accounting policies (cont'd)

(f) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are stated at their revalued amounts, being their fair values at the date of revaluation, less accumulated depreciation and accumulated impairment losses. Buildings are shown at fair value, based on periodic, but at least annual, valuations by external independent valuers, less subsequent depreciation. 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 historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of properties are credited to property revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against property revaluation reserve directly in equity, all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from property revaluation reserve to accumulated losses.

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

Buildings	Over the lease term
Plant and machinery	10 – 15 years
Furniture and fixtures	10 years
Motor vehicles	5 years

The asset's residue values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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For the year ended 31 December 2006

2. Summary of significant accounting policies (cont'd)

(g) Operating leases

Leases where substantially all the rewards and risk of ownership remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

(h) Impairment of assets

i) Impairment of assets

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

– property, plant and equipment (other than buildings which carried at revalued amounts); and
– investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

I) Calculation of recoverable amount

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

II) Recognition of impairment losses

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

2. Summary of significant accounting policies (cont'd)

(h) Impairment of assets (cont'd)

i) Impairment of assets (cont'd)

III) Reversals of impairment losses

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

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

ii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(h)(i)).

Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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2. Summary of significant accounting policies (cont'd)

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Interest-bearing borrowings

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

(l) Trade and other payables

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

(m) Cash and cash equivalents

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

2. Summary of significant accounting policies (cont'd)

(n) Income tax

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

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

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

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

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

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

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

2. Summary of significant accounting policies (cont'd)

(n) Income tax (cont'd)

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

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

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

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

   – *the same taxable entity; or*

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

(o) Provisions and contingent liabilities

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

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

2. Summary of significant accounting policies (cont'd)

(p) Foreign currency transactions

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) Group companies

The results and financial position of all group entities that have functional currency different from the presentation currency are translated into the presentation currency as follows:

I) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of gain or loss on sale.

(q) Employee benefits

i) Employment Ordinance long service payments

Certain employees of the Group have completed the required number of years of service under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong (the "Employment Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Employment Ordinance.

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2. Summary of significant accounting policies (cont'd)

(q) Employee benefits (cont'd)

ii) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

iii) Retirement benefits scheme

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, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

iv) Share-based compensation

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

The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the options expire (when it is released directly to accumulated losses).

2. Summary of significant accounting policies (cont'd)

(r) Revenue recognition

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

i) Sales of goods

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Revenue includes value added tax or other sales taxes and is after deduction of any trade discounts.

ii) Sales of services

Commission and management fee income are recognised when the related services are rendered.

iii) Interest income

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

iv) Dividend income

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

v) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered be the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the lease asset. Leases incentive granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(s) Related parties

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

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For the year ended 31 December 2006

2. Summary of significant accounting policies (cont'd)

(t) Segment reporting

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

3. Changes in accounting policies

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 2 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 38) except for HK(IFRIC) 10, Interim financial reporting and impairment, which is effective for accounting periods beginning on or after 1 November 2006.

4. Financial risk management

(a) Financial risk factors

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

(i) Credit risk

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

(ii) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meeting its trading, manufacturing and other business operations.

4. Financial risk management (cont'd)

(a) Financial risk factors (cont'd)

(iii) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are all short term in nature. Interest bearing financial liabilities is include other borrowings with floating interest rates. Therefore, any future variations in interest rate will have a minimal impact on the results of the Group.

iv) Fair values

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

(b) Estimation of fair values

The following summaries the major methods and assumptions used in estimating the fair values of the following financial instrument.

Interest-bearing loans and borrowings

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

(c) Sensitivity analysis

In managing interest rate and foreign currency risks that the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 31 December 2006, it is estimated that a general increase of one percentage point in interest rates would decrease/increase the Group's (loss)/profit before taxation by approximately HK$1,558,000 (2005: HK$1,558,000) respectively so far as the effect on interest-bearing financial instruments is concerned.

4. Financial risk management (cont'd)

(d) Critical accounting estimates and judgements

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

(i) Estimated useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges of its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimates lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(ii) Estimated provision of impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the collectibility of trade and other receivables. Provisions for impairment are applied to trade and other receivables when events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such differences will have an impact on the carrying value of receivables and doubtful debts expenses in the period such estimate has been changed.

5. Segment information

The Group is principally in trading and manufacturing of phosphoric acid, design, manufacturing and sale of optical products. The directors of the Company regard the business segment as the primary reporting format because it reflect the Group's risks and returns. The secondary segment format, representing the principal markets of the Group's products, is mainly divided into six geographical areas, namely the United States of America, Europe, East Asia, Hong Kong, The People's Republic of China ("Mainland PRC") and others.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

5. Segment information (cont'd)

(a) Business segments

The Group comprises the following main business segments:

(i) Phosphorus business: manufacture and sell of phosphoric acid for domestic and commercial use;

(ii) Optical business: design, manufacture and sell of optical products.

	Optical Business		Phosphorus Business		Unallocated		Total	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Segment revenue								
Sales to external customers	115,641	146,983	119,560	–	–	–	235,201	146,983
Other revenue from external customers	2,791	5,277	1,697	–	–	914	4,488	6,191
	118,432	152,260	121,257	–	–	914	239,689	153,174
Segment result	(39,993)	(21,500)	22,639	–	–	–	(17,354)	(21,500)
Unallocated operating income and expenses							(6,524)	(2,659)
Loss from operations							(23,878)	(24,159)
Finance costs							(13,867)	(13,057)
Provision for impairment loss on investment in an associate							(162)	–
Waiver of debt and accrued interest under a Loan Restructuring Agreement							–	67,662
Gain on disposal of land use rights and buildings							3,608	–
Share of results of associates	20,265	8,271	–	–	–	–	20,265	8,271
Income tax							(476)	–
(Loss)/profit for the year							(14,510)	38,717
Depreciation and amortisation for the year	(11,471)	(11,848)	(20)	–				
Provision for impairment of								
– property, plant and equipment	(4,988)	–	–	–				
– investment in an associate	(162)	–	–	–				
Significant non-cash expenses (other than depreciation and amortisation)	(7,620)	(3,513)	–	–				

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5. Segment information (cont'd)

(a) Business segments (cont'd)

	Optical Business		Phophorus Business		Total	
	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	149,233	180,997	28,105	–	177,338	180,997
Investments in associates	50,100	35,825	–	–	50,100	35,825
Unallocated assets					587	8,951
Total assets					228,025	225,773
Segment liabilities	(38,371)	(31,137)	(15,115)	–	(53,486)	(31,137)
Unallocated liabilities					(183,323)	(179,962)
Total liabilities					(236,809)	(211,099)
Capital expenditure incurred during the year	7,607	5,554	14	–		

(b) Geographical segments

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers. Segment assets and capital expenditure based on the geographical location of the assets.

Geographical segments

The following table presents the information of the revenue and certain assets and expenditure in respect of the Group's geographical segments:

	United States of America		Europe		East Asia		Hong Kong		Mainland PRC		Others		Consolidated	
	2006	2005	2006	2005	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	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:														
Sales to external customers	45,970	77,979	69,126	43,729	37,367	–	4,402	6,815	57,100	8,917	21,236	9,543	235,201	146,983
Other segment information:														
Segment assets	9,784	25,345	14,698	11,403	–	–	21,865	25,888	179,833	160,208	1,845	2,303	228,025	226,147
Capital expenditure	–	–	–	–	–	–	41	1,068	7,579	4,486	–	–	7,620	5,554

6. Turnover

Turnover represents the gross invoiced value of goods sold, net of returns and allowances.

7. Other income

	2006 HK$'000	2005 HK$'000
Bank interest income	1,094	371
Commission income received from a related company	1,696	904
Management fee income received from an associate	426	613
Sales of obsolete inventories	682	594
Gain on disposal of property, plant and equipment	1,035	–
Rental income	347	410
Gain on deregistration of a subsidiary	–	2,973
Sales of materials to an associate	78	–
Others	224	326
	5,582	6,191

8. Provision for impairment on investment in an associate

The directors has reviewed the carrying amount of its interest in an associate which was being under the process of being struck off. Impairment loss of approximately HK$162,000 was recognised in the consolidated income statement.

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9. Loss from operations

Loss from operations is stated after charging the following:

	2006 HK$'000	2005 HK$'000
Cost of inventories *	208,793	140,874
Depreciation	11,245	11,355
Amortisation of land use rights	246	493
Minimum lease payments under operating leases in respect of land and buildings	2,956	1,471
Staff costs (including directors' remuneration – note 12):		
Salaries, allowance and benefits in kind	51,919	48,546
Equity compensation benefits	52	–
Pension contributions	615	544
Less: Forfeited contributions	–	(56)
Net pension contributions	615	488
	52,586	49,034
Exchange loss, net	1,230	183
Auditors' remuneration		
– Current year	770	640
– Over-provision in prior years	(20)	(20)
	750	620
Loss on disposal of plant and equipment	–	6
Impairment of inventories	5,788	1,942
Impairment of trade receivables and other receivables	352	1,571
Share of tax of associates (included in share of results of associates)	168	–

* The cost of inventories includes HK$43,556,000 (2005: HK$44,369,000) relating to staff costs and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

For current year, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

10. Finance costs

	2006 HK$'000	2005 HK$'000
Interest charged by a shareholder, Probest in relation to:		
Loan therefrom	3,876	3,109
A promissory note	9,991	9,948
	13,867	13,057

11. Wavier of debt and accrued interest under a Loan Restructuring Agreement

(a) On 20 January 2005, an agreement (as amended by the Supplemental Agreement) (the "Disposal Agreement") was made between Probest Holdings Inc ("Probest"), amongst the others, an independent third party, China Time Investment Holdings Limited ("China Time"), pursuant to which Probest, disposed of approximately 46% existing issued shares of the Company to China Time.

Upon completion of the Sale and Purchase Agreement on 3 June 2005, Probest holds approximately 5% of the existing issued shares of the Company which in turn owns 70% issued capital of Profitown Investment Corporation ("Profitown"), and 30% issued capital of Profitown.

(b) On 20 January 2005, the Company, Probest and Profitown entered into the Loan Restructuring Agreement ("Loan Restructuring Agreement"), pursuant to which Probest agreed to waive an outstanding principal of the Debt under the Old Promissory Note due by Swank to Probest with over and above the Remaining Debt of HK$112,167,732 due and owing by Profitown to the Company ("Profitown/Swank Loan), the interest and the default interest on the Debt for the period from 5 November 2004 up to and inclusive of date of the Share Disposal Agreement as referred to (a) above, in the amount of approximately HK$12,669,995 and any further interest which may be accrued on the Debt up to and inclusive of the effective date when the conditions of the Loan Restructuring Agreement were fulfilled. Profitown issued the New Promissory Note with the principal amount of HK$112,285,435 in favour of Probest, in consideration of Probest waiving portion of the outstanding Debt under the Old Promissory Note and releasing the Company from all future obligations and liabilities under the Old Promissory Note.

In addition, the Company executed a guarantee in favour of Probest ("Swank Guarantee") that if and whenever Profitown defaults for any reason in payment of the principal sum due under the New Promissory Note issued to Probest, the Company will upon demand by Probest unconditionally pay and satisfy all the interest which Profitown is liable to pay under the New Promissory Note on and after such default. The obligations of the Company under the Swank Guarantee are unsecured and will cease to be effective if the Put Option is exercised and the transaction contemplated under the Put Option is completed.

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11. Wavier of debt and accrued interest under a Loan Restructuring Agreement (cont'd)

(c) On 3 June 2005, the Company, Probest and its holding company, Tomorrow International Holdings Limited and Profitown entered into a shareholder agreement to regulate the management of Profitown ("Shareholders Agreement"). Pursuant to principal terms of the Shareholders Agreement, the Company will have the right to request Probest or an independent third party procured by Probest to purchase (the "Put Option") all (but not part of only) of its shares, being 70% of all the existing issued shares of Profitown exercisable at any time before the expiry of 30 months from the Completion Date of the Sale and Purchase Agreement at a price equal to the net tangible asset value of Profitown as at the date of exercise of such put option attributable to such shares and such purchaser will assume all the liabilities due from the Company to any member of the Profitown Group incurred prior to the date of the Shareholders Agreement at nil consideration. If the net tangible asset value of Profitown as determined on the same basis and accounting policies adopted by Profitown in its latest audited accounts shall fall below zero during the 30 months period from the Completion Date, Probest will indemnify Profitown on demand for the deficit in the event that such deficit exceeds the outstanding principal amount of the New Promissory Note due to Probest and the interest accrued. The Put Option and such indemnity by Probest will cease and Probest shall have no further obligations in respect thereto if (i) the aggregate shareholding of China Time in the Company falls below 51%; (ii) there is any change to the majority of the board of directors of China Time since the date of and as disclosed in the Sale and Purchase Agreement; and (iii) Mr. Wang An Kang cease to be the legal and beneficial owner of at least 75% of and in China Time.

Further details of the above Disposal Agreement, Loan Restructuring Agreement, Shareholders Agreement and the issue of the New Promissory Note are set out in a circular dated 10 May 2005.

After completion all of the abovementioned transactions, a net gain of approximately HK$67,662,000 on the waiver of debt principal and accrued interest due to Probest under the Loan Restructuring Agreement was resulted and credited to the consolidated income statement for the year ended 31 December 2005.

12. Directors' remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension contribution HK$'000	2006 Total HK$'000
Executive directors				
Zhao Jun	–	600	12	612
Li Wei	–	500	12	512
Zhou Jing	–	480	12	492
Wang An Kang	–	480	–	480
Independent non-executive directors				
Choi Tze Kit, Sammy	180	–	–	180
Wu Bin	180	–	–	180
Tam King Ching, Kenny	180	–	–	180
	540	2,060	36	2,636

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

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12. Directors' remuneration (cont'd)

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension contribution HK$'000	2005 Total HK$'000
Executive directors				
Zhao Jun (note i)	–	294	2	296
Li Wei (note i)	–	245	1	246
Zhou Jing (note i)	–	235	1	236
Wang An Kang (note i)	–	235	–	235
Yau Tak Wah, Paul (note iii)	–	–	–	–
Louie Mei Po (note iii)	–	–	–	–
Wong Shin Ling, Irene (note iii)	–	–	–	–
Tam Wing Kin (note iii)	–	–	–	–
Cheung Wah Hing (note iii)	–	–	–	–
Independent non-executive directors				
Hahn Ka Fai, Mark (note iii)	61	–	–	61
Shum Wai Ting, Rebecca (note iii)	61	–	–	61
Wu Wang Li (note iii)	61	–	–	61
Choi Tze Kit, Sammy (note i)	88	–	–	88
Wu Bin (note i)	88	–	–	88
Tam King Ching, Kenny (note ii)	64	–	–	64
	423	1,009	4	1,436

Note (i): appointed on 5 July 2005
Note (ii): appointed on 24 August 2005
Note (iii): resigned on 5 July 2005

12. Directors' remuneration (cont'd)

	2006 HK$'000	2005 HK$'000
Directors' fees:		
Executive	–	–
Independent non-executive	540	423
	540	423
Other emoluments:		
Executive:		
Salaries, allowances and benefits in kind	2,060	1,009
Compensation for loss of office	–	–
Pension contributions	36	4
Independent non executive	–	–
	2,096	1,013
	2,636	1,436

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

13. Individuals with highest emoluments

The five highest paid employees during the year include one director (2005: Nil). Details of the remuneration of the remaining four (2005: five) non-directors, highest paid employee is as follows:

	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	2,930	2,666
Equity compensation benefits	52	–
Pension contributions	46	59
	3,028	2,725

The remuneration of above remaining four (2005: five) non-directors, highest paid employees fell within the following bands:

	Number of employees 2006	 2005
Nil – HK$1,000,000	4	5

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14. Income tax

	2006 HK$'000	2005 HK$'000
Under-provision in prior years	476	–

No Hong Kong profits tax and overseas tax has been provided in the financial statements as the companies within the Group have either accumulated tax losses brought forward, which exceed the estimated assessable profits for the year, or did not have any assessable profits for the year.

The charge for the years can be reconciled to the (loss)/profit per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
(Loss)/profit before taxation	(14,034)	38,717
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (loss)/profit in the countries concerned	(3,121)	7,038
Income not subject to taxation	(11,076)	(12,608)
Expenses not deductible for taxation purposes	4,684	1,017
Under-provision in prior years	476	–
Unrecognised tax losses	9,665	5,106
Utilisation of previously unrecognised tax losses	(152)	(553)
Taxation charge	476	–

15. (Loss)/profit attributable to equity shareholders of the Company

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of approximately HK$6,015,000 (2005: profit of approximately HK$63,088,000) which has been dealt with in the financial statements of the Company.

16. Dividends

No dividend was paid or proposed for the years ended 31 December 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

17. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company for the year of approximately HK$5,632,000 (2005: profit of approximately HK$45,938,000) and the weighted average of 3,124,862,734 (2005: 3,124,862,734) ordinary shares in issue during the year.

(b) Diluted (loss)/earnings per share

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

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18. Property, plant and equipment

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1/1/2006	35,910	169,391	67,968	2,189	275,458
Additions	–	3,308	4,313	–	7,621
Disposals/write off	(17,310)	(11,624)	(21,189)	(647)	(50,770)
Deficit on revaluation	(1,013)	–	–	–	(1,013)
At 31/12/2006	17,587	161,075	51,092	1,542	231,296
Accumulated depreciation and impairment					
At 1/1/2006	–	140,755	52,106	2,189	195,050
Charge for the year	1,372	7,037	2,836	–	11,245
Written back on disposals/write off	(541)	(11,624)	(21,169)	(647)	(33,981)
Impairment loss recognised	–	4,214	774	–	4,988
Deficit on revaluation	(831)	–	–	–	(831)
At 31/12/2006	–	140,382	34,547	1,542	176,471
Net book value					
At 31/12/2006	17,587	20,693	16,545	–	54,825
An analysis of cost or valuation					
At cost	–	161,075	51,092	1,542	213,709
At valuation	17,587	–	–	–	17,587
	17,587	161,075	51,092	1,542	231,296

Note: Property, plant and equipment of the Group amounted to approximately HK$4,988,000 were determined to be impaired. These assets were belonged to a subsidiary being under the process of winding up as at the balance sheet date. The factors of the Group considered in the determining whether the financial assets were impaired are disclosed in note 2 (h)(i).

18. Property, plant and equipment (cont'd)

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1/1/2005	38,600	168,256	63,557	2,189	272,602
Additions	–	1,135	4,419	–	5,554
Disposals	–	–	(8)	–	(8)
Deficit on revaluation	(2,690)	–	–	–	(2,690)
At 31/12/2005	35,910	169,391	67,968	2,189	275,458
Accumulated depreciation and impairment					
At 1/1/2005	1,506	135,204	48,068	2,189	186,967
Charge for the year	1,764	5,551	4,040	–	11,355
Written back on disposals	–	–	(2)	–	(2)
Deficit on revaluation	(3,270)	–	–	–	(3,270)
At 31/12/2005	–	140,755	52,106	2,189	195,050
Net book value					
At 31/12/2005	35,910	28,636	15,862	–	80,408
An analysis of cost or valuation					
At cost	–	169,391	67,968	2,189	239,548
At valuation	35,910	–	–	–	35,910
	35,910	169,391	67,968	2,189	275,458

All buildings of the Group are situated in Mainland PRC.

All the Group's buildings, which are held for own use in Dongguan (2005: in Dongguan and Shenzhen) of Mainland PRC, were revalued as at 31 December 2006 at their open market value by reference to recent market transactions in comparable properties. The valuations were carried out by B.I. Appraisals Limited, who is an associate member of Hong Kong Institute of Surveyors, at approximately HK$17,587,000 (2005: HK$35,910,000). Revaluation deficit of approximately HK$182,000 (2005: revaluation deficit of HK$542,000 and revaluation surplus of HK$1,122,000) resulting from the revaluation have been debited to the consolidated income statement and the property revaluation reserve, respectively.

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18. Property, plant and equipment (cont'd)

As at 31 December 2006, the Group has buildings with a net book value of approximately HK$17,587,000 situated on the land of which no land use rights certificates has been obtained.

Had the Group's buildings stated at valuation been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$38,154,000 (2005: HK$42,307,000).

19. Land use rights

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

	Group	
	2006 HK$'000	2005 HK$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	–	7,869

The Group had not obtained land use right certificates situated in the Mainland PRC with a net book value of approximately HK$7,869,000 at 31 December 2005.

20. Investments in subsidiaries

	Company	
	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	1,090	1,086
Less: Impairment loss	(1,081)	(1,081)
	9	5

20. Investments in subsidiaries (cont'd)

The following is a list of the principal subsidiaries at 31 December 2006:

Name	Country/place of incorporation/ establishment and operation	Principal activities	Nominal value of issued ordinary/ registered share capital	Proportion of ownership interest held	
				Directly	Indirectly
Anchorage Trading Limited	Hong Kong	Sales agent of an overseas principal	HK$1	100%	–
Artland Manufactory Limited	Hong Kong	Investment holding	HK$2	–	70%
Bestway Development Limited	Hong Kong	Representative office in trading	HK$2	–	70%
Dongguan De Bao Optical Co., Ltd. ("De Bao")	Mainland PRC	Manufacture of multi–coating lenses	HK$58,550,910 (Note i)	–	35% (Note iii)
Dongguan Hamwell Glasses Co., Ltd. ("Dongguan Hamwell")	Mainland PRC	Manufacture of optical products	HK$62,504,800 (Note ii)	–	58%
Global Origin Limited	Hong Kong	Investment holding	HK$75,000,000	–	63%
Golden Cadilac Company Limited	Hong Kong	Investment holding	HK$20	–	70%
Hamwell International Limited	Hong Kong	Investment holding	HK$10,000	–	63%
Profit Trend International Limited	Hong Kong	Investment holding	HK$1,000,000	–	35% (Note iii)
Profitown Investment Corporation	The British Virgin Islands ("BVI")	Investment holding	US$1,000	70%	–

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20. Investments in subsidiaries (cont'd)

Name	Country/place of incorporation/ establishment and operation	Principal activities	Nominal value of issued ordinary/ registered share capital	Proportion of ownership interest held	
				Directly	Indirectly
Prowin Commercial & Industrial Limited	Hong Kong	Property holding in Mainland PRC	HK$2	–	70%
Swank International Group BVI Limited	BVI	Trade mark holding	US$1	–	70%
Swank International Limited	Hong Kong	Investment holding	HK$20	–	70%
Swank International Management Company Limited	Hong Kong	Provision of accounting and secretarial service	HK$2	–	70%
Swank International Optical Company Limited	Hong Kong	Trading of optical products	HK$100,000	–	70%
Toey Limited	BVI	Investment holding	US$1	–	70%
防城港華海化工有限公司(“華海”)	Mainland PRC	Sales and manufacture of phosphoric acid	HK$5,000,000 (Note iv)	–	100%
Shenzhen Henggang Swank Optical Industrial Co., Ltd. ("Henggang")	Mainland PRC	Manufacture of optical products	US$30,000,000 (Note v)	–	57%

20. Investments in subsidiaries (cont'd)

Notes:

(i) De Bao is registered as a wholly foreign owned enterprise under the Mainland PRC law. The registered capital of De Bao is HK$118,100,000. At the balance sheet date, plant and machinery amounting to HK$58,550,910 has been contributed by the Group towards meeting the registered capital requirement. The outstanding amount of approximately HK$59,549,000 was due for contribution on 18 March 1999 in accordance with De Bao's articles of association. The Group has been in discussion with the relevant authorities to modify the original terms of the articles of association, including the amount of total registered capital. Up to the date of this Annual Report, the Group has not yet obtained the approval from the relevant authorities.

(ii) Dongguan Hamwell is a sino-foreign owned joint venture enterprise under the Mainland PRC law. The registered capital of Dongguan Hamwell is HK$67,940,000. At the balance sheet date, plant and machinery amounting to approximately HK$62,505,000 has been contributed by the Group to Dongguan Hamwell towards meeting the registered capital requirement. The remaining registered capital of HK$5,435,000 has not yet been contributed by the minority shareholder of Dongguan Hamwell as at 31 December 2006.

(iii) The Company has the power to cast the majority of votes at meetings of the board of directors of these entities and therefore they are regarded as subsidiaries of the Company.

(iv) 華海 is registered as a wholly foreign owned enterprise under the Mainland PRC law. The registered capital of 華海 is HK$5,000,000. At the balance sheet date, cash amounting to HK$750,000 has been contributed by the Group towards meeting the registered capital requirement. The outstanding amount of approximately HK$4,250,000 has not yet been contributed by the Group as at 31 December 2006.

(v) The subsidiary was under the process of winding up.

The carrying amount of the investments in subsidiaries is reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

21. Interests in associates

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	145,412	133,147
Less: Impairment loss	(100,191)	(100,029)
	45,221	33,118
Amounts due from associates	4,879	2,707
	50,100	35,825

(a) The amounts due from associates are unsecured, interest free and not repayable within the next 12 months from the balance sheet date.

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21. Interests in associates (cont'd)

(b) The following is a list of the principal associates at 31 December 2006:

Name	Business structure	Class of shares held	Country/ place of incorporation/ establishment and operations	Principal activities	Percentage of interest in ownership/ voting power held indirectly
Dongguan Yueheng Optical Co., Ltd	Corporate	Contributed capital	Mainland PRC	Manufacture of optical lenses	50%
Dongguan Yueheng Optical (HK) Company Limited	Corporate	Ordinary	Hong Kong	Trading of optical products	50%
Dongguan Yueheng Optical (BVI) Company Limited	Corporate	Ordinary	BVI	Financial servicing and marketing of optical products	50%

(c) The directors reviewed the carrying amount of its interests in associates and determined the amount of approximately HK$100,191,000 (2005: HK$100,029,000) to be impaired and full provision had been made on two associates. These two associates were being under process of struck off and lost control.

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

Note: Dongguan Yueheng Optical Co., Ltd. is a sino-foreign owned joint venture enterprise under Mainland PRC law.

21. Interests in associates (cont'd)

Summary of financial information on associates

	2006 HK$'000	2005 HK$'000
Total assets	109,199	80,243
Total liabilities	(8,862)	(3,917)
Net assets	100,337	76,326
Group's share of net assets of associates	45,221	33,118
Revenue	127,542	75,515
Profit/(loss) for the year	38,091	(18,583)
Group's share of results of associates for the year	20,265	8,271

22. Other receivables

	Group and Company	
	2006 HK$'000	2005 HK$'000
Other receivables	96,343	96,339
Less: Impairment loss	(96,343)	(96,339)
	–	–

Other receivables represent the loans owed by independent third parties, Hanmy (Holding) Limited and its related companies (collectively "Hanmy"), to the Group. The Group has commenced legal proceedings against Hanmy for recovery of the amounts due. Impairment loss has been fully provided for these debts by the Group, as in the opinion of the directors, it is uncertain whether the debts will be recovered following the conclusion of the legal proceedings.

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23. Trade receivables

As at 31 December 2006, trade receivable of the Group amounting to approximately HK$1,919,000 (2005: HK$1,571,000) were determined to be impaired and full provision had been made. These receivables were determined to be impaired and full provision had been made. These receivables were due from companies with financial difficulties. The ageing analysis of the Group's trade receivables, based on payment due date and net of provisions, is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Current to 30 days	26,354	40,530
31 to 60 days	1,811	1,964
61 to 90 days	517	1,565
More than 90 days	2,987	1,274
	31,669	45,333
Less: Provision for impairment of receivables	(1,919)	(1,571)
	29,750	43,762

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

	Group	
Original currency	2006 '000	2005 '000
United State Dollars ("US$")	3,462	5,160
Euro	148	94
Renminbi ("RMB")	3,068	212

The normal credit period granted by the Group to customers ranges from 30 days to 120 days. All of the trade receivables are expected to be recovered within one year.

Included in trade receivables of the amount of approximately HK$1,744,000 (2005: Nil) due from a related company, 雲南南磷集團進出口有限公司 ("Yunphos"), a company owned over 50% by Mr. Wang An Kang and Mr Zhao Jun, executive directors of the Company, is unsecured, interest free and repayable on demand with maximum outstanding balance owed during the year amounted to approximately HK$1,799,000 (2005: Nil).

24. Inventories

	Group 2006 HK$'000	Group 2005 HK$'000
Raw materials	19,512	13,341
Work in progress	13,431	5,028
Finished goods	10,315	4,562
	43,258	22,931

All inventories were carried at net realisable value as at 31 December 2005.

The Group recognised a loss of approximately HK$5,788,000 (2005: HK$1,942,000) for the impairment of its inventories during the year.

25. Amounts due to associates/a subsidiary

The amounts are unsecured, interest free and repayable on demand.

26. Amount due to a shareholder, Probest

The amount due to Probest is unsecured, bearing interest at a rate equivalent to 1% over the prevailing Hong Kong prime rate per annum and has no fixed repayment terms. In the opinion of the directors of the Company, the amount due to Probest will not be repayable within the next 12 months from the balance sheet date.

27. Trade payables

The ageing analysis of the Group's trade payables, based on payment due date, is as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Current to 30 days	15,885	10,028
31 to 60 days	3,062	887
61 to 90 days	941	527
More than 90 days	682	1,148
	20,570	12,590

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27. Trade payables (cont'd)

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

	Group	
	2006	2005
Original currency	'000	'000
US$	504	564
Euro	74	38
Japanese Yen	6,505	9,079
New Taiwan Dollars	201	38
RMB	9,638	3,325

28. Promissory note payable

	Group and Company	
	2006	2005
	HK$'000	HK$'000
Interest payable on demand	15,050	5,059
Principal repayable:		
Within 1 year	112,285	–
Payable after 1 year but within 2 years	–	112,285
After 2 years but within 5 years	–	–
Total	127,335	117,344
Amount due to Probest under promissory note	127,335	117,344
Portion classified as current liabilities	(127,335)	(5,059)
Non-current portion	–	112,285

The promissory note payable to Probest is unsecured with maturity date on 2 December 2007 and bearing interest at the rate equivalent to 1% over the prevailing Hong Kong prime rate per annum on the principal amount.

29. Provision for long service payments

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	176	379
Amount utilised during the year	(61)	(203)
At 31 December	115	176
Portion classified as current liabilities	–	–
Non-current portion	115	176

The Group provides for the probable future long service payments expected to be made to employees under the Employment Ordinance, as further explained under the heading "Employee benefits" in note 2(q) to the financial statements. The provision is based on the best estimate of the probable future payments, which have been earned by the employees from their service to the Group rendered for the balance sheet date.

30. Amount due to a related company

The amount due to a related company, a company wholly owned by Mr. Wang An Kang, an executive director of the Company, is unsecured, interest free and repayable on demand.

31. Deferred taxation

The principal component of the Group's and the Company's net deferred tax asset position not recognised in the financial statements is as follows:

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Unused tax losses	136,145	126,748	33,099	32,073

No deferred tax has been provided on the revaluation surplus of the Group's properties situated in the Mainland PRC because the Group has sufficient estimated unused tax losses to offset the temporary differences. Included in unused tax losses are losses from Mainland PRC subsidiaries that will expire in 2011. The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

32. Share capital

	2006 HK$'000	2005 HK$'000
Authorised:		
300,000,000,000 ordinary shares of HK$0.01 each	3,000,000	3,000,000
Issued and fully paid:		
3,124,862,734 ordinary shares of HK$0.01 each	31,249	31,249

33. Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 28 May 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, up to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12–months period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-months period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The share option may be exercised under the Scheme at any time during a period of 3.5 years after the date when the scheme option is granted and expiring on the last date of such period.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

33. Share option scheme (cont'd)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following table shows the movement of the Company's share options during the years ended 31 December 2006 and 2005.

Employees

Date of share options granted	Exercise price	Exercise period	Outstanding at the beginning of the year	Granted during the year	Exercise during the year	Outstanding at the end of the year
15/12/2005	HK$0.10	24/2/2008 – 23/8/2011	10,000,000	–	–	10,000,000
Number of options exercisable at 31 December 2006						–

In assessing the theoretical aggregate value of the share options granted and fully accepted during the year, the Black–Scholes option pricing model has been used. In current year, an amount of share option expense of approximately HK$52,000 (2005: Nil) has been recognised.

Share options granted and fully accepted during the year ended 31 December 2006:

Date of Grant: 15/12/2005
Vesting Period: 15/12/2005 – 23/02/2008
Exercise Period: 24/02/2008 – 23/08/2011
Exercise Price: HK$0.10 per share
Share options value at 15/12/2005 (note ii): HK$112,000

Notes:

i) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK$0.75.

ii) According to the Black–Scholes model, the theoretical aggregate value of the options was estimated at HK$112,000 as at 15 December 2005 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	3.97%, being the approximate yield of the 3.5 – year Exchange Fund Note traded on 15/12/2005
Expected Volatility	:	24.67%, being the annualised standard deviations of the continuously compounded rates of return on the share prices of three other comparable listed Hong Kong companies with similar business operations
Expected Life of the Options	:	3.5 years from the date of granting
Expected dividend	:	0%

iii) Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of Ordinary Shares available to be issued under the relevant share option scheme.

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34. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity in the financial statements.

(b) Company

	Share premium account HK$'000	Special reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	723,462	341,800	–	(1,162,413)	(97,151)
Profit for the year (note 15)	–	–	–	63,088	63,088
At 31 December 2005 and 1 January 2006	723,462	341,800	–	(1,099,325)	(34,063)
Recognition of equity compensation benefits	–	–	52	–	52
Loss for the year (note 15)	–	–	–	(6,015)	(6,015)
At 31 December 2006	723,462	341,800	52	(1,105,340)	(40,026)

35. Commitments

(a) Operating lease commitment

At 31 December 2006, the Group and the Company had commitments for future minimum lease under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	3,155	1,424	285	622
In the second to fifth year inclusive	–	842	–	285
	3,155	2,266	285	907

The Group leases certain of its office properties and warehouses under operating lease arrangements. Leases for office properties and warehouses are negotiated for terms ranging from 1 to 2 years.

(b) Capital commitment

The Group has no material capital commitments as at 31 December 2006 (2005: capital commitment in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately HK$2,819,000).

36. Related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 12 and certain of the highest paid employees as disclosed in note 13, is as follows:

	2006	2005
	HK$'000	HK$'000
Short-term employee benefits	4,426	1,941
Post-employment benefits	70	20
Equity compensation benefits	52	–
	4,548	1,961

Total remuneration is included in "staff costs" (see note 9).

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36. Related party transactions (cont'd)

(b) Other related party transcations

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related and connected parties during the year:

	Note	Group 2006 HK$'000	Group 2005 HK$'000
Sales of finished goods to			
– associates	(i)	10,742	8,256
– a related company	(i)	45,222	–
Purchases of raw materials and finished goods from			
– associates	(ii)	12,015	13,180
– related companies	(ii)	93,262	–
Sales of materials to an associate		78	–
Management fee income received from an associate	(iii)	426	613
Commission income received from a related company	(v)	1,696	904
Interest expense charged by a shareholder, Probest		13,867	13,057
Annual rental paid to			
– a joint venture partner	(iv)	2,299	2,853
– related companies		1,289	–
Commission paid to a related company	(vi)	2,068	–
Amount due to a shareholder, Probest (note 26)		53,579	49,703
Amounts due to associates		6,729	4,014
Amounts due from associates (note 21)		4,879	2,707
Amount due to a related company (note 30)		11,460	–
Amount due from a related company (note 23)		1,744	–
Promissory note payable to Probest (note 28)		127,335	112,285
Loan principal and interests waived by Probest (note 11)		–	67,662

36. Related party transactions (cont'd)

(b) Other related party transcations (cont'd)

Notes:

(i) The sales to associates and a related company were made according to the published prices, terms and conditions offered to the major customers of the Group.

(ii) The purchases from associates and related companies were made according to the published prices, terms and conditions offered by the associates to their major customers.

(iii) The management fee income was charged according to the management's estimation on costs of office premises and utilities used by the associates.

(iv) The annual rental was paid to a joint venture partner in Mainland PRC and accordingly the Group is entitled to all of the profits and bears all of the losses of Henggang.

(v) The commission income was received from Rightlink Trading Limited("Rightlink"), a Company wholly owned by Mr Wang An Kang, an executive director of the Company. The commission was charged at 3% of the invoiced amount on products sold by Rightlink.

(vi) The commission was paid to a related company, Yunphos, a company owned over 50% by Mr Wang An Kang and Mr Zhao Jun, executive directors of the Company.

37. Contingent liabilities

At the balance sheet date, there were contingent liabilities in respect of the following:

(a) A single guarantee issued by the Company to a shareholder of the Group in respect of interest payment amounted to approximately HK$15,050,000 (2005: HK$5,059,000) under the promissory note payable by a subsidiary of the Group.

(b) The Group has contingent liabilities of RMB9,500,000 (2005: Nil) equivalent to approximately HK$9,450,000 (2005: Nil) in relation to the provision of a guarantee issued by a subsidiary to minority interests of another subsidiary of the Group regarding any potential loss that may be borne by the minority interests during the winding up process of the subsidiary.

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38. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

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

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

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

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements: Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) – Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 May 2007

39. Acquisition of additional investment in a subsidiary

During the year, the leasehold land and buildings located in Shenzhen of Mainland PRC held by a subsidiary of the Group with net book value amounting to approximately HK$24,392,000, the land was being early countermanded by the local Mainland PRC government of which led to the Group decided to wind up the subsidiary in Shenzhen. Since the subsidiary was not wholly owned by the Group, the Group had to compensate the loss suffered by the minority shareholders of which the Group had purchased back all the shares held by the minority shareholders at a consideration of approximately HK$9,000,000 and also guaranteed the minority shareholders for any further loss suffered (see note 37(b) for details).

40. Ultimate holding company

The directors regard China Time Investment Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company. This entity does not produce financial statements available for public use.