1. CORPORATE INFORMATION

Oriental Explorer Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively, the "Group") were involved in the following principal activities:

- trading of steel; and
- manufacturing and trading of electronic products.

In the opinion of the directors, the parent company of the Group is Limitless Investment Limited, which is incorporated in the British Virgin Islands, and the ultimate holding company of the Group is Power Resources Holdings Limited, which is incorporated in the British Virgin Islands.

These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand (HK$'000) unless otherwise stated. These financial statements were approved and authorised for issue by the board of directors on 19 April 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). They have been prepared under the historical cost convention, except for the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of preparation *(continued)*

Adoption of new/revised HKFRSs and changes in accounting policies

In 2005, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provision, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 33, 36, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of preparation *(continued)*

The impact of adopting the other HKFRSs is summarised as follows:

(i) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The effects of the above changes are summarised in the section headed "Summary of the impact of changes in accounting policies" below. The comparative amounts in the consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

(ii) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group classified its investments in unlisted equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses. Debt securities that the Group had the ability to hold to maturity were classified as held-to-maturity securities and were stated in the balance sheet at amortised cost less impairment losses. The investments in listed securities were classified as short term investments and stated at fair value and the gains or losses arising from changes in the fair values of such securities were credited or charged to the income statement in the period in which they arose.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 requires retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Upon the adoption of HKASs 32 and 39, debt securities, investments in listed securities, and investments in unlisted equity securities are classified as held-to-maturity financial assets, financial assets at fair value through profit or loss, and available-for-sale financial assets, respectively. Held-to-maturity financial assets are stated at amortised cost less impairment losses. Available-for-sale financial assets are classified at fair value, where an active market exists, with any realised gains and losses recognised in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Financial assets at fair value through profit or loss are carried at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of preparation *(continued)*

(ii) HKAS 32 and HKAS 39 – Financial Instruments (continued)

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Trade and other receivables were previously carried at cost less impairment of receivables.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings were previously stated at cost.

The effects of the above changes are summarised in the section headed "Summary of the impact of changes in accounting policies" below. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(iii) HKAS 40 – Investment Property

The Group's share of its associates' post-acquisition results is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves.

In prior years, changes in the fair values of investment properties held by an associate were dealt with as movements in the investment property revaluation reserve of the associate. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement of the associate. Any subsequent revaluation surplus was credited to the income statement of the associate to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties held by the associate are included in the income statement of the associate in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement of the associate in the year of the retirement or disposal.

The Group's associate has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained earnings rather than restating the comparative amounts to reflect the changes retrospectively for the earlier year. The effects of the above changes are summarised in the section headed "Summary of the impact of changes in accounting policies" below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of preparation *(continued)*

(iv) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005. As all the share options of the Group were granted before 7 November 2002, the adoption of HKFRS 2 has had no impact on the financial statements of the Group.

(v) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

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

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise the carrying amounts of negative goodwill against retained earnings.

The effects of the above changes are summarised in the section headed "Summary of the impact of changes in accounting policies" below. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of preparation *(continued)*

The Group has not applied the following new/revised HKFRSs, that have been issued but are not yet effective, to these financial statements:

HKAS 1 Amendment	Capital Disclosures *(Note (a))*
HKAS 21 Amendment	Net Investment on a Foreign Operation *(Note (b))*
HKAS 39 Amendment	The Fair Value Option *(Note (b))*
HKFRS 7	Financial Instruments: Disclosures *(Note (a))*

Notes:

(a) Effective for accounting periods beginning on or after 1 January 2007

(b) Effective for accounting periods beginning on or after 1 January 2006

The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1 January 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its results of operations and financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of preparation *(continued)*

Summary of the impact of changes in accounting policies

(1) Effect on consolidated balance sheet as at 1 January 2005 and 31 December 2005

	Effect of adopting				
As at 1 January 2005	**HKAS 17#**	**HKASs 32 and 39***	**HKAS 40***	**HKFRS 3***	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Change in classification of equity investments**	**Surplus on revaluation of investment properties of associates**	**Derecognition of negative goodwill**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	(313)	—	—	—	(313)
Prepaid land lease payments	493	—	—	—	493
Negative goodwill	—	—	—	(22,494)	(22,494)
Available-for-sale financial assets	—	54,890	—	—	54,890
Loans to investee companies	—	50,199	—	—	50,199
Long term investments	—	(105,089)	—	—	(105,089)
Financial assets at fair value through profit or loss	—	77,880	—	—	77,880
Short term investments	—	(77,880)	—	—	(77,880)
Investment property revaluation reserve	—	—	(3,621)	—	(3,621)
Retained Profits	180	—	3,621	22,494	26,295

* Adjustments taken effect prospectively from 1 January 2005

Adjustments/presentation taken effect retrospectively

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of preparation *(continued)*

Summary of the impact of changes in accounting policies (continued)

(1) Effect on consolidated balance sheet as at 1 January 2005 and 31 December 2005 *(continued)*

	Effect of adopting				
As at 31 December 2005	**HKAS 17**	**HKASs 32 and 39**	**HKAS 40**	**HKFRS 3**	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Change in classification of equity investments**	**Surplus on revaluation of investment properties of associates**	**Derecognition of negative goodwill**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	(284)	—	—	—	(284)
Prepaid land lease payments	484	—	—	—	484
Negative goodwill	—	—	—	(19,676)	(19,676)
Available-for-sale financial assets	—	49,983	—	—	49,983
Loans to investee companies	—	50,199	—	—	50,199
Long term investments	—	(100,182)	—	—	(100,182)
Financial assets at fair value through profit or loss	—	99,358	—	—	99,358
Short term investments	—	(99,358)	—	—	(99,358)
Investment property revaluation reserve	—	—	(4,823)	—	(4,823)
Available-for-sale investment revaluation reserve	—	509	—	—	509
Retained Profits	200	—	4,823	19,676	24,699

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of preparation *(continued)*

Summary of the impact of changes in accounting policies (continued)

(2) Effect on opening balance of total equity as at 1 January 2004 and 2005

	Effect of adopting			
Effect of new policies (Increase/(decrease))	**HKAS 17 Prepaid land lease payments**	**HKAS 40 Surplus on revaluation of investment properties of associates**	**HKFRS 3 Derecognition of negative goodwill**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2004				
Retained Profits	160	—	—	160
				160
As at 1 January 2005				
Investment property revaluation reserve	—	(3,621)	—	(3,621)
Retained Profits	180	3,621	22,494	26,295
				22,674

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of preparation *(continued)*

Summary of the impact of changes in accounting policies (continued)

(3) Effect on consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting			
	HKAS 1	**HKAS 17**	**HKFRS 3**	
Effect of new policies	**Share of post-tax results of associates**	**Prepaid land lease payments**	**Discontinuation of recognition of negative goodwill as income**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2005				
Decrease in share of profits of associates	(400)	—	—	(400)
Decrease in income tax	400	—	—	400
Decrease in administrative expenses	—	20	—	20
Decrease in negative goodwill recognised as income on acquisition of an associate	—	—	(2,818)	(2,818)
Total increase/(decrease) in profit	—	20	(2,818)	(2,798)
Decrease in basic earnings per share	—	—	0.16 cents	0.16 cents
Year ended 31 December 2004				
Decrease in share of profits of associates	(395)	—	—	(395)
Decrease in income tax	395	—	—	395
Decrease in administrative expenses	—	20	—	20
Total increase in profit	—	20	—	20
Effects on basic earnings per share	—	—	—	—

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

c. Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

d. Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

e. Goodwill

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f. Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

g. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of an item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Buildings	5%
Leasehold improvements	Over the lease terms
Plant and machinery	10% - 20%
Furniture, fixtures, office and computer equipment	20% - 33 $^1/_3$%
Motor vehicles	20% - 25%
Vessels	30%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. Property, plant and equipment *(continued)*

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

h. Leases

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

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

i. Investments

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

(i) Financial assets at fair value through profit or loss

Financial assets held for trading are included in the category "financial assets at fair value through profit or loss". A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i. Investments *(continued)*

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

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

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

k. Inventories

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

l. Cash and cash equivalents

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

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

m. Share capital

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

n. Borrowings

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

o. Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

p. Deferred income tax

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

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

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

q. Revenue recognition

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

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

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

(c) dividend income, when the shareholders' right to receive payment has been established; and

(d) proceeds from the disposal of listed investments, when the relevant sale contract is entered into.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

r. Employee benefits

(i) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its Hong Kong employees. 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 Scheme. The assets of the 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 Scheme.

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

(ii) Share-based compensation

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

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

(iii) Employment Ordinance long service payments

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

A provision is recognised in respect of the probable future long service payments expected to be made. 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 to the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

s. Foreign currency translation

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

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

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

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange 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.

(i) Foreign exchange risk

The Group operates mainly in Mainland China and Hong Kong and is exposed to foreign exchange risk arising from Renminbi currency exposures, primarily with respect to Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group's risk management policy is to have the liquid assets mainly denominated in Hong Kong dollars, United States dollars and Renminbi.

3. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. It has policies in place to ensure that credits are granted to customers with an appropriate credit history. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure adequate impairment losses are made for irrecoverable amounts.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and financial assets at fair value through profit or loss, the Group's exposure to credit risk arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

(iii) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

(iv) Interest rate risk

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

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date.

The nominal value less estimated impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

The Group's management determines the impairment of accounts receivable on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of accounts receivable at the balance sheet date.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the steel trading segment is a supplier of steel products mainly for use in construction and other heavy industries;

(b) the electronic products segment is a supplier of electronic components mainly for use in the manufacture of electronic products; and

(c) the corporate and other segment.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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

5. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group	Steel trading		Electronic products		Corporate and others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue								
Sales to external customers	**1,143,393**	525,737	**7,434**	12,438	**—**	—	**1,150,827**	538,175
Segment results	**3,835**	2,280	**(1,880)**	986	**1,231**	(2,822)	**3,186**	444
Other revenue and gains							**13,980**	21,015
Unallocated expenses							**(7,003)**	(5,568)
Operating profit							**10,163**	15,891
Finance costs							**(336)**	(370)
Share of profits of associates, net							**1,470**	2,198
Negative goodwill recognised as income on acquisition of an associate							**—**	2,818
Profit before income tax							**11,297**	20,537
Income tax							**(734)**	(428)
Profit for the year							**10,563**	20,109

5. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group	Steel trading		Electronic products		Corporate and others		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**18,112**	13,522	**5,136**	7,370	**45,335**	51,713	**—**	—	**68,583**	72,605
Unallocated assets	**—**	—	**—**	—	**—**	—	**—**	—	**199,540**	183,149
Interests in associates	**—**	—	**—**	—	**—**	—	**—**	—	**84,801**	57,294
Total assets	**18,112**	13,522	**5,136**	7,370	**45,335**	51,713	**—**	—	**352,924**	313,048
Segment liabilities	**3,981**	3,239	**4,335**	4,567	**4,675**	2,134	**—**	—	**12,991**	9,940
Unallocated liability										
– Income tax payable	**—**	—	**—**	—	**—**	—	**—**	—	**5,338**	4,604
Total liabilities	**3,981**	3,239	**4,335**	4,567	**4,675**	2,134	**—**	—	**18,329**	14,544
Other segment information										
Gain on disposal of a deconsolidated subsidiary	**—**	—	**—**	—	**—**	4,162	**—**	—	**—**	4,162
Depreciation	**—**	—	**201**	400	**258**	867	**—**	—	**459**	1,267
Other non-cash expenses	**—**	—	**—**	—	**8**	445	**—**	—	**8**	445
Capital expenditure	**—**	—	**23**	46	**543**	464	**—**	—	**566**	510

5. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group	Hong Kong		Mainland China		Thailand		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue								
Sales to external customers	**7,434**	12,438	**—**	—	**1,143,393**	525,737	**1,150,827**	538,175
Other segment information								
Segment assets	**175,417**	162,446	**177,507**	150,601	**—**	1	**352,924**	313,048
Capital expenditure	**543**	464	**23**	46	**—**	—	**566**	510

6. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of turnover, other revenue and gains is as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Trading of steel	**1,143,393**	525,737
Manufacturing and trading of electronic products	**7,434**	12,438
	1,150,827	538,175
Other revenue and gains		
Interest income	**3,525**	1,287
Gain on disposal of financial assets at fair value through profit or loss/short term investment	**5,165**	7,621
Dividend income from listed investments	**3,174**	2,071
Reversal of provision for impairment of interest in an associate	**2,116**	—
Gain on disposal of items of property, plant and equipment	**—**	5,874
Gain on disposal of a deconsolidated subsidiary *(Note)*	**—**	4,162
	13,980	21,015
	1,164,807	559,190

Note:

In prior years, Jiangyin Bofeng Steel Company Limited ("Jiangyin Bofeng") was a 51.3% owned subsidiary of the Group. During the year ended 31 December 2001, the Group entered into an agreement with an independent third party for the disposal of the Group's entire equity interests in Jiangyin Bofeng at a cash consideration of RMB6,000,000. Jiangyin Bofeng was accounted for as a deconsolidated subsidiary of the Group with effect from 1 July 2001. During the year ended 31 December 2004, the Group received an aggregate amount of RMB5,000,000 in respect of the aforesaid disposal which resulted in a net gain of approximately HK$4,162,000.

7. OPERATING PROFIT

The Group's operating profit is arrived at after charging/(crediting):

	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold	**1,121,317**	521,750
Depreciation of owned assets	**459**	1,267
Minimum lease payments under operating leases for land and buildings	**611**	1,252
Auditors' remuneration	**300**	211
Fair value losses, net		
Financial assets at fair value through profit or loss	**4,057**	—
Unrealised losses on revaluation of listed investments, net	**—**	5,143
Impairment of interest in an associate	**—**	445
Foreign exchange differences, net	**(448)**	(406)
Employee benefits expenses, including directors' remuneration *(Note 9)*:		
Salaries and allowances	**4,675**	5,184
Pension scheme contributions *(Note (i))*	**91**	116
	4,766	5,300

Note:

(i) As at 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil)

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on discounted bills	**336**	370

9. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2005 HK$'000	2004 HK$'000
Short-term employee benefits	**3,158**	1,457
Post-employment benefits	**48**	36
	3,206	1,493

9. COMPENSATION TO KEY MANAGEMENT PERSONNEL *(continued)*

(a) Directors' remuneration

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

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Lau Chi Yung, Kenneth	350	650	12	1,012
Mr. Lau Michael Kei Chi	500	—	—	500
Independent non-executive directors				
Mr. Choy Tak Ho	60	—	—	60
Mr. Lo Yick Wing	60	—	—	60
Mr. Wong Yim Sum	60	—	—	60
	1,030	650	12	1,692

The remuneration of every director of the Company for the year ended 31 December 2004 is set out below:

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Lau Chi Yung, Kenneth	—	260	12	272
Mr. Lau Michael Kei Chi	—	—	—	—
Mr. Tsang Pak Chung, Eddy *(Note (i))*	—	—	—	—
Mr. Cho Po Hong, Jimmy *(Note (ii))*	—	360	9	369
Independent non-executive directors				
Mr. Choy Tak Ho	60	—	—	60
Mr. Lo Yick Wing *(Note (iii))*	15	—	—	15
Mr. Wong Yim Sum *(Note (iii))*	15	—	—	15
Mr. Albert Thomas da Rosa, Junior *(Note (ii))*	45	—	—	45
	135	620	21	776

9. COMPENSATION TO KEY MANAGEMENT PERSONNEL *(continued)*

(a) Directors' remuneration *(continued)*

Notes:

(i) Resigned on 1 August 2004.

(ii) Resigned on 28 September 2004.

(iii) Appointed on 28 September 2004.

None of the directors of the Company waived or agreed to waive any emoluments during the year ended 31 December 2005 (2004: Nil).

(b) Five highest paid individuals

The five highest paid employees during the year included two (2004: one) directors, details of whose remuneration are set out in note 9(a) above. Details of the remuneration of the remaining three (2004: four) non-director, highest paid employees for the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,478**	1,745
Pension scheme contributions	**36**	48
	1,514	1,793

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

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**3**	4

(c) During the year ended 31 December 2005, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: Nil).

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Current tax – Hong Kong		
Charge for the year	**734**	348
Overprovision in prior years	**—**	(330)
Current tax – Mainland China		
Charge for the year	**—**	410
Total tax charge for the year	**734**	428

A reconciliation of the tax expense applicable to profit before income tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2005		2004	
	HK$'000	**%**	*HK$'000*	%
			(Restated)	
Profit before income tax	**11,297**		20,537	
Tax at applicable tax rate	**1,517**	**13**	3,106	15
Adjustments in respect of current tax of previous periods	**—**	**—**	(330)	(2)
Income not subject to tax	**(2,394)**	**(21)**	(1,300)	(6)
Expenses not deductible for tax	**994**	**9**	195	1
Tax losses not recognised	**479**	**4**	413	2
Tax losses utilised from prior years	**—**	**—**	(687)	(3)
Others	**138**	**1**	(969)	(5)
Tax charge at the Group's effective rate	**734**	**6**	428	2

The share of tax attributable to associates amounting to approximately HK$400,000 (2004: HK$395,000) is included in "Share of profits of associates, net" on the face of the consolidated income statement.

10. INCOME TAX *(continued)*

The principal components of the Group's deferred tax asset not recognised in the financial statements, calculated at the rate of 17.5% (2004: 17.5%) on the cumulative timing differences at the balance sheet date, are as follows:

	2005	2004
	HK$'000	*HK$'000*
Tax losses	**26,758**	10,297
Accelerated depreciation allowances	**92**	171
	26,850	10,468

The Group's tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company is a loss of approximately HK$225,000 (2004: profit of approximately HK$87,000) (Note 29(b)).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to equity holders of the Company for the year ended 31 December 2005 of approximately HK$10,563,000 (2004: HK$20,109,000 (restated)) and the weighted average number of 1,800,000,000 (2004: 1,800,000,000) ordinary shares in issue during the year.

Diluted earnings per share, reflecting the exercise of subscription rights under the share options granted pursuant to the Company's share option schemes, have not been presented because the share options had no dilutive effects for both the years ended 31 December 2005 and 2004.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improve-ments	Plant and machinery	Furniture, fixtures, office and computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2005						
As at 31 December 2004 and 1 January 2005						
Cost	746	2,926	37,994	5,288	1,677	48,631
Accumulated depreciation	(336)	(2,917)	(37,717)	(5,206)	(887)	(47,063)
Net carrying amount	410	9	277	82	790	1,568
As at 1 January 2005, net of accumulated depreciation	410	9	277	82	790	1,568
Additions	—	—	23	—	543	566
Depreciation provided for the year	(37)	(9)	(164)	(30)	(219)	(459)
As at 31 December 2005, net of accumulated depreciation	373	—	136	52	1,114	1,675
As at 31 December 2005						
Cost	746	2,926	38,017	5,288	1,920	48,897
Accumulated depreciation	(373)	(2,926)	(37,881)	(5,236)	(806)	(47,222)
Net carrying amount	373	—	136	52	1,114	1,675

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

Group

	Buildings *HK$'000* *(Restated)*	**Leasehold improve-ments** *HK$'000*	**Plant and machinery** *HK$'000*	**Furniture, fixtures, office and computer equipment** *HK$'000*	**Motor vehicles** *HK$'000*	**Vessels** *HK$'000*	**Total** *HK$'000* *(Restated)*
31 December 2004							
As at 1 January 2004							
Cost	746	2,926	37,971	5,265	1,213	4,863	52,984
Accumulated depreciation	(298)	(2,894)	(37,372)	(5,169)	(671)	(3,889)	(50,293)
Net carrying amount	448	32	599	96	542	974	2,691
As at 1 January 2004, net of accumulated depreciation	448	32	599	96	542	974	2,691
Additions	—	—	23	23	464	—	510
Depreciation provided for the year	(38)	(23)	(345)	(37)	(216)	(608)	(1,267)
Disposals	—	—	—	—	—	(366)	(366)
As at 31 December 2004, net of accumulated depreciation	410	9	277	82	790	—	1,568
As at 31 December 2004							
Cost	746	2,926	37,994	5,288	1,677	—	48,631
Accumulated depreciation	(336)	(2,917)	(37,717)	(5,206)	(887)	—	(47,063)
Net carrying amount	410	9	277	82	790	—	1,568

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Carrying amount as at 1 January		
As previously reported	**—**	—
Effect of adoption of HKAS 17 *(Note 2(a)(i))*	**493**	501
As restated	**493**	501
Recognised during the year	**(9)**	(8)
Carrying amount as at 31 December	**484**	493

The Group's leasehold land is situated in the PRC and is held under long term leases.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**136,380**	136,380
Provision for impairment	**(88,480)**	(88,480)
	47,900	47,900
Due from subsidiaries	**564,273**	564,813
Provision against amounts due from subsidiaries	**(441,716)**	(441,716)
	122,557	123,097
	170,457	170,997

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

15. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries as at 31 December 2005 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
			%	%	
Linkful (Holdings) Limited	Hong Kong	Ordinary HK$1,000 Non-voting deferred HK$20,000,000	—	100	Investment holding
Linkful Metals Trading Limited	British Virgin Islands/ Thailand	US$1	—	100	Metal trading
Linkful (PRC) Investments Limited	Hong Kong	HK$2	—	100	Investment holding
Linkful Management Services Limited	Hong Kong	HK$2	—	100	Provision of management services
Linkful Strategic Investment Limited	British Virgin Islands	US$1	100	—	Investment holding
Linkful Properties Company Limited	Hong Kong/ Mainland China	HK$2	—	100	Investment and property holding
Inter China Limited	British Virgin Islands	US$100	—	57	Investment holding
East Winner Limited	British Virgin Islands	US$1	100	—	Investment holding
Linkful Electronics Limited	British Virgin Islands	US$1	100	—	Investment holding
Alphatronics Limited	Hong Kong	HK$6,000,000	—	75	Trading of electronic products
Alphatronics Electronic (Shenzhen) Co., Ltd. *(Note)*	People's Republic of China ("PRC")/ Mainland China	US$3,310,000	—	75	Manufacture of electronic components
Snowdon Worldwide Limited	British Virgin Islands	US$1	—	100	Investment holding

15. INTERESTS IN SUBSIDIARIES *(continued)*

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

Note: Registered as a wholly-foreign owned enterprise under the PRC law.

16. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Share of net assets	**53,347**	48,334
Loans to associates	**33,019**	33,019
	86,366	81,353
Provision for impairment	**(1,565)**	(1,565)
	84,801	79,788
Negative goodwill on acquisition	**—**	(22,494)
	84,801	57,294

The loans to associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate their fair values.

Particulars of the principal associates as at 31 December 2005 are as follows:

Name	**Particular of issued shares held**	**Place of incorporation/ registration and operations**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Prince Properties Limited	5,000 ordinary shares of HK$1 each	Hong Kong	50	Investment holding
Call Rich Investments Limited ("Call Rich")	12,520 ordinary shares of of US$1each	British Virgin Islands	25.04	Investment holding

The shareholdings in the associates' equity shares are held through wholly-owned subsidiaries.

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.

16. INTERESTS IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information of the associates of the Group as extracted from their financial statements:

	2005	2004
	HK$'000	*HK$'000*
Total assets	**700,866**	698,125
Total liabilities	**358,723**	379,300
Revenue	**27,149**	26,609
Profit	**9,168**	13,746

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS/LONG TERM INVESTMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed debt investments, at fair value	**10,353**	—	**—**	—
Held-to-maturity debt securities, at cost	**—**	15,600	**—**	—
Unlisted debt investments, at cost	**670**	—	**670**	—
Unlisted equity investments, at cost	**48,967**	49,297	**—**	330
Loans to investee companies	**—**	50,199	**—**	—
Provision for impairment	**(10,007)**	(10,007)	**—**	—
	49,983	105,089	**670**	330

The loans to investee companies are unsecured, interest-free and have no fixed terms of repayment. The loans are separately presented on the face of the consolidated balance sheet as at 31 December 2005 (Note 18).

During the year, the gross loss of the Group's available-for-sale financial assets recognised directly in equity amounted to approximately HK$509,000 (2004: Nil).

As at 31 December 2005, the Group's listed debt investments with a carrying value of approximately HK$10,353,000 (2004: Nil) were pledged to secure interest-bearing borrowings, further details of which are disclosed in note 26 to the financial statement.

The above equity investments were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate. The unlisted equity investments of the Group are not stated at fair value but at cost less any accumulated impairment losses because they do not have a quoted market price in an active market. In addition, the directors of the Company consider that the fair value of such investments cannot be reliably measured as the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS/LONG TERM INVESTMENTS *(continued)*

Particulars of unlisted equity investments as at 31 December 2005 were as follows:

Name	Place of incorporation	Nominal value of issued ordinary share capital	Percentage of equity interest attributable to the Group	Principal activities
Rich Returns Limited	British Virgin Islands	US$100	18	Investment holding
Head Wonder International Limited	British Virgin Islands	US$10,000	5	Investment holding

18. LOANS TO INVESTEE COMPANIES

The loans to investee companies are unsecured, interest-free and have no fixed terms of repayment.

The fair values of the Group's loans to investee companies included in the amount at the balance sheet date approximate the corresponding carrying amounts.

19. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**1,614**	1,538
Work in progress	**10**	10
Finished goods	**717**	1,192
	2,341	2,740

20. TRADE RECEIVABLES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Trade receivables	**1,791**	2,115
Less: Provision for impairment of receivables	**(215)**	(215)
	1,576	1,900

An aged analysis of trade receivables at the balance sheet date, based on invoice date and stated net of provision for impairment, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within three months	**1,576**	1,900

The Group's trading terms with customers are mainly on credit. Invoices are normally payable within two months of issuance, except for certain well established customers, where the terms are extended to three to six months in some cases, subject to the approval of senior management. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest-bearing.

The fair values of the Group's trade receivables included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The fair values of the Group's and the Company's prepayments, deposits and other receivables included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed equity investments, at market value				
Hong Kong	**76,356**	54,054	**616**	635
Elsewhere	**23,002**	23,826	**—**	—
	99,358	77,880	**616**	635

The above equity investments as at 31 December 2005 were classified as held for trading. As at 31 December 2005, the Group's listed equity investments with a carrying value of approximately HK$17,048,000 (2004:Nil) were pledged to secure interest-bearing borrowings, further details of which are disclosed in note 26 to the financial statements.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**3,470**	15,004	**1**	1
Time deposits	**41,629**	25,987	**—**	—
	45,099	40,991	**1**	1
Less: Pledged time deposits	**(25,463)**	(7,800)	**—**	—
Cash and cash equivalents	**19,636**	33,191	**1**	1

The time deposits of HK$25,463,000 (2004: HK$7,800,000) were pledged as security for banking facilities granted.

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

24. TRADE PAYABLES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Trade payables	**742**	1,088

An aged analysis of trade payables at the balance sheet date, based on invoice date, is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within three months	**628**	960
Four to six months	**114**	128
	742	1,088

The trade payables are non-interest-bearing and are normally settled on 60-days terms. The fair values of the Group's trade payables included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals and other liabilities	**10,056**	8,262	**124**	118
Due to a minority shareholder	**590**	590	**—**	—
	10,646	8,852	**124**	118

The amount due to the minority shareholder is unsecured, interest-free and has no fixed terms of repayment. Accruals and other liabilites are non-interest-bearing and have an average term of two months.

The fair values of the Group's and the Company's other payables and accruals included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

26. INTEREST-BEARING BORROWINGS

	Effective interest rate (%)	Maturity	Group **2005** ***HK$'000***	Group 2004 *HK$'000*
Other loan – secured	0.58	4 January 2006	**1,603**	—
Analysed into:				
Other loan repayable:				
Within one year			**1,603**	—

The Group's other loan with an investment bank is secured by certain cash deposits and securities with a carrying amount of approximately HK$46,129,000 as at 31 December 2005, bears interest at 0.58% and is repayable on 4 January 2006.

The carrying amounts of the Group's current borrowings approximate their fair values.

27. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	*HK$'000*
Authorised		
20,000,000,000 (2004: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid		
1,800,000,000 (2004: 1,800,000,000) ordinary shares of HK$0.01 each	**18,000**	18,000

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 28 to the financial statements.

28. SHARE OPTION SCHEMES

(a) The 1993 Scheme

On 8 March 1993, the Company adopted a share option scheme (the "1993 Scheme") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the 1993 Scheme included the Company's directors, including independent non-executive directors and employees of the Group. The 1993 Scheme remained in force for 10 years from that date and expired on 7 March 2003.

The maximum number of shares over which options could be granted could not exceed 10% of the ordinary share capital in issue from time to time, excluding those shares which had been issued under the 1993 Scheme.

Under the 1993 Scheme, the directors could, at their discretion, at any time during the 10 years from the date of approval of the 1993 Scheme, grant to directors, including independent non-executive directors, and employees of the Group options to subscribe for shares in the share capital of the Company. The share subscription price of any options granted under the 1993 Scheme was the higher of 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date on which an option is granted and the nominal value of the shares.

Pursuant to a directors' resolution passed on 7 February 1998, options to subscribe for an aggregate of 58,500,000 shares in the Company within 10 years from the date of grant, at a subscription price of HK$0.112 per share, were granted by the Company. None of these share options has since been exercised by the grantees.

Name or category of participant	Date of grant of share options	Exercise price of share options *HK$* *(Note)*	Number of share options as at 1 January and 31 December 2005	Exercise period of share options	Price of Company's shares at grant date of options *HK$*
Director					
Lau Chi Yung, Kenneth	7 February 1998	0.112	19,500,000	7 February 1998 to 6 February 2008	0.19
Others					
Tsang Pak Chung, Eddy	7 February 1998	0.112	19,500,000	7 February 1998 to 6 February 2008	0.19
Leung Wei San, Saskia	7 February 1998	0.112	19,500,000	7 February 1998 to 6 February 2008	0.19
			58,500,000		

No share options were granted, exercised, expired or forfeited during the year.

28. SHARE OPTION SCHEMES *(continued)*

(a) The 1993 Scheme *(continued)*

Note: The exercise price of the share options is subject to adjustment in the case of rights or bonus issues or other similar changes in the Company's share capital.

As at 31 December 2005, 58,500,000 share options remained outstanding under the 1993 Scheme, which represented approximately 3.25% of the Company's shares in issue as at that date. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 58,500,000 additional ordinary shares of the Company and additional share capital of HK$585,000 and share premium of HK$5,967,000 (before issue expenses).

(b) The 2003 Scheme

On 27 June 2003, a new share option scheme (the "2003 Scheme"), in compliance with the requirements of Chapter 17 of the Listing Rules, was adopted by the Company for a period of 10 years, 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 2003 Scheme include any employee (including any executive and non-executive director), adviser, consultant, agent, contractor, client or customer, or supplier of any member of the Group.

The maximum number of unexercised share options currently permitted to be granted under the 2003 Scheme is an amount equivalent, upon their exercise, 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 2003 Scheme within any 12-month 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-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 5 days from the date of the offer upon payment of a nominal consideration by the grantee. The exercise period of the share options granted is determinable by the directors, commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the option.

The subscription price is determined by the directors, but in any event may not be less than the higher of (i) the closing price of the shares on the date of grant, which must be a trading date; (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of share.

No share options were granted, exercised, expired or forfeited during the year.

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

29. 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.

(b) Company

	Share premium account	Capital redemption reserve	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2004	418,511	546	88,380	(353,452)	153,985
Profit for the year	—	—	—	87	87
As at 31 December 2004 and 1 January 2005	418,511	546	88,380	(353,365)	154,072
Loss for the year	—	—	—	(225)	(225)
As at 31 December 2005	**418,511**	**546**	**88,380**	**(353,590)**	**153,847**

The Company's contributed surplus represents the difference arising between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the value of the net assets of the subsidiaries acquired at the time of the Group's reorganisation in a prior year. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

30. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

(a) The Group received rental income in the amount of HK$115,000 (2004: HK$115,000) from Alpha Japan Limited ("Alpha Japan"), the minority shareholder of a subsidiary of the Group. The rental income was charged based on open market rental.

(b) The Group paid rental expenses in the amount of HK$Nil (2004: HK$525,000) to Verywell Properties Limited, a wholly-owned subsidiary of Multifield International Holdings Limited, a company controlled by Mr. Lau Chi Yung, Kenneth, a director and a substantial shareholder of the Company. The terms of the rental were on a monthly renewal basis and were arrived at after negotiations between both parties with reference to the prevailing market rents.

(c) A subsidiary sold finished goods of approximately HK$3,197,000 (2004: HK$4,302,000) to and purchased raw materials and equipment parts of approximately HK$1,186,000 (2004: HK$1,236,000) from a related company of Alpha Japan. These transactions were based on published prices and conditions normally offered by the Group to third party customers in the ordinary course of business of the Group (in respect of the sales), and offered by a related company of Alpha Japan to its third party customers (in respect of the purchases).

31. OPERATING LEASE COMMITMENTS

The Group and the Company had no significant commitments under non-cancellable operating leases at the balance sheet date (2004: Nil).

32. CONTINGENT LIABILITIES

As at 31 December 2005, the amount of guarantees given to banks by the Company in connection with facilities granted to subsidiaries and associates was approximately HK$442,752,000 (2004: HK$289,057,000).