1. General

The Company is incorporated in Bermuda under The Companies Act 1981 of Bermuda as an exempted company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the "Corporation Information" section of the annual report.

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

The Company is an investment holding company and its principal subsidiaries are mainly engaged in electroplating equipment business. The details of principal activities of its principal subsidiaries are set out in note 45.

2. Application of Hong Kong Financial Reporting Standards/ Changes in Accounting Policies

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

BUSINESS COMBINATIONS

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3 "Business Combinations". With respect to goodwill previously capitalised on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$45,178,000 with a corresponding decrease in the cost of goodwill (see note 18). The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. The profit of the Group for the current year has been increased by HK$248,000 due to non-amortisation of goodwill. Comparative figures for 2004 have not been restated.

2. Application of Hong Kong Financial Reporting Standards/ Changes in Accounting Policies *(Continued)*

FINANCIAL INSTRUMENTS

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group classifies and measures its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. Available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment.

On 1st January, 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Investment securities and other investments reported under SSAP 24 was classified as "available-for-sale financial assets" and "investments held for trading" respectively upon the adoption of the HKAS 39. Accordingly, no adjustment to retained profits at 1st January, 2005 was required.

2. Application of Hong Kong Financial Reporting Standards/ Changes in Accounting Policies *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. This change has had no material effect on the results for the current year.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous years. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1st January, 2005. As a result, the Group's bill receivables with full recourse which were derecognised prior to 1st January, 2005 have not been restated. As at 31st December, 2005, the Group's bills receivables with full recourse have not been derecognised. Instead, the related borrowings of HK$20,990,000 have been recognised on the balance sheet date. This change has had no material effect on the results for the current year.

OWNER-OCCUPIED LEASEHOLD INTEREST IN LAND

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The surplus on revaluation in respect of the land interests accounted for as property, plant and equipment previously recognised in the property revaluation reserve was adjusted retrospectively. This change in accounting policy has been applied retrospectively. This change has had no material effect on the results for the current year. (see Note 2A for the financial impact)

2A. Summary of the Effects of the Changes in Accounting Policies

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated) HK$'000	HKAS 17 Adjustments HK$'000	HKAS 1 and HKAS 27 Adjustments HK$'000	As at 31st December, 2004 (restated) HK$'000	HKAS 39 Adjustments HK$'000	As at 1st January, 2005 (restated) HK$'000
Balance sheet items						
Property, plant and equipment	93,494	(12,062)	–	81,432	–	81,432
Prepaid lease payments	–	9,242	–	9,242	–	9,242
Investments in securities	13,471	–	–	13,471	(13,471)	–
Available-for-sale investments	–	–	–	–	524	524
Investments held for trading	–	–	–	–	12,947	12,947
Deferred taxation	(3,721)	645	–	(3,076)	–	(3,076)
Other assets and liabilities	135,018	–	–	135,018	–	135,018
Total effects on assets and liabilities	238,262	(2,175)	–	236,087	–	236,087
Share capital	4,265	–	–	4,265	–	4,265
Other reserves	83,144	–	–	83,144	–	83,144
Property revaluation reserve	35,424	(3,041)	–	32,383	–	32,383
Retained profits	106,481	866	–	107,347	–	107,347
Minority interests	–	–	8,948	8,948	–	8,948
Total effects on equity	229,314	(2,175)	8,948	236,087	–	236,087
Minority interests	8,948	–	(8,948)	–	–	–
	238,262	(2,175)	–	236,087	–	236,087

2A. Summary of the Effects of the Changes in Accounting Policies

(Continued)

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised below:

	As originally stated HK$'000	HKAS 17 Adjustments HK$'000	HKAS 1 and HKAS 27 Adjustments HK$'000	As restated HK$'000
Share capital	55,293	–	–	55,293
Property revaluation reserve	35,424	(3,041)	–	32,383
Accumulated deficit	(351,400)	866	–	(350,534)
Other reserves	395,908	–	–	395,908
Minority interests	–	–	43,672	43,672
	135,225	(2,175)	43,672	176,722

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective as at 31st December, 2005. The directors of the Company anticipate that the application of these new standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosure[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[3]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste–electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.

[2] Effective for annual periods beginning on or after 1st January, 2006.

[3] Effective for annual periods beginning on or after 1st December, 2005.

[4] Effective for annual periods beginning on or after 1st March, 2006.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for buildings and certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

GOODWILL

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

3. Significant Accounting Policies *(Continued)*

GOODWILL *(Continued)*

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent years.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

INTERESTS IN ASSOCIATES

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is 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 that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. Significant Accounting Policies *(Continued)*

PROPERTIES HELD FOR DEVELOPMENT

Properties are included in the balance sheet as non-current assets and are stated at cost, less any identified impairment loss. Cost includes land costs and professional fees attributable to the development of the properties.

PROPERTIES HELD FOR SALE

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is calculated as the estimated selling price less all costs to completion, if applicable, and costs of marketing and selling.

CONSTRUCTION CONTRACTS

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised to by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred for work performed to date bear to estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises of direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

3. Significant Accounting Policies *(Continued)*

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 Property, Plant and Equipment from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to 30th September, 1995, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

The cost or valuation of buildings is depreciated over their estimated useful lives using the straight line method.

Depreciation is provided to write off the cost of other plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using straight-line method.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets of the Group or, where shorter, the term of the relevant leases.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

INTANGIBLE ASSETS

Patents are measured initially at cost and are amortised on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

3. Significant Accounting Policies *(Continued)*

IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, other than goodwill as stated above, to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard in which case the impairment loss is treated as revaluation increase under that standard.

LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. Significant Accounting Policies *(Continued)*

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable.

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Sales of goods are recognised when goods are delivered and title has passed.

Revenue from services rendered is recognised when the services are rendered, the revenue can be reliably estimated and it is probable that the revenue will be received.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rates applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Rental income under operating leases is recognised in the income statement on a straight-line basis over the terms of the relevant lease.

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. Significant Accounting Policies *(Continued)*

FOREIGN CURRENCIES *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the currency translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

3. Significant Accounting Policies *(Continued)*

TAXATION *(Continued)*

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefits scheme/state-managed retirement benefits schemes/ the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense as they fall due.

For defined benefit retirement benefits scheme, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 percent of the greater of the present value of the Group's defined benefits obligation and the fair value of scheme assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

3. Significant Accounting Policies *(Continued)*

RETIREMENT BENEFIT COSTS *(Continued)*

The amount recognised in the balance sheet represents the present value of the defined benefits obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measure at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sale of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. The Group classified financial assets as investments held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. Significant Accounting Policies *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables (including loans receivable and debtors, amounts due from associates, pledged deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent years.

3. Significant Accounting Policies *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including creditors, bills payables and accrued charges, amounts due to associates, borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are also discussed below.

DEPRECIATION

The Group's net book value of property, plant and equipment as at 31st December, 2005 was HK$80,794,000. The Group depreciates the property, plant and equipment on a straight line basis over the estimated useful life as set out in note 15, commencing from the date the property, plant and equipment is placed into intended use. The estimated useful life and dates that the Group places the property, plant and equipment into use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

ALLOWANCES FOR BAD AND DOUBTFUL DEBTS

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

ALLOWANCES FOR INVENTORIES

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such raw materials and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

5. Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade and other receivables, pledged bank deposit, bank balances and cash, trade and other payables and obligations under finance lease. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments and the polices on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

CURRENCY RISK

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposits, debtors, creditors and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

INTEREST RATE RISK

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

In addition, the Group has exposure to cash flow interest rate risk through the impact of the rate changes on pledged bank balances, loan receivables and borrowings which are carried at variable interest rate and fair value interest rate risk through the impact of the rate changes on obligations under finance leases which are carried at fixed interest rate. The directors consider the Group's exposure to interest rate risk is not significant as interest bearing bank and borrowings balances are within short maturity periods.

CREDIT RISK

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those asset as stated in the consolidated balance sheet. In order to minimise the credit risk, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's credit risk on its trade receivables is concentrated over some of its major customers and the Group has policies in place to ensure that sales of products are made to those customers with an appropriate credit history.

5. Financial Risk Management Objectives and Policies *(Continued)*

PRICE RISK

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

6. Turnover

The Group's turnover for the year ended 31st December, 2005 analysed by principal activity is as follows:

	2005	2004		
	Continuing operations HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Revenue from construction contracts in respect of:				
– design, manufacture and sale of custom-built electroplating machinery and other industrial machinery	385,430	487,702	53,924	541,626
– arts performance and social functions	–	–	4,302	4,302
Rental income from leasing equipment	1,080	1,540	–	1,540
Sale of goods	17,959	41,265	–	41,265
Interest income from money lending	389	90	–	90
Provision of services – repairs and maintenance	26,072	18,003	–	18,003
	430,930	548,600	58,226	606,826

7. Business and Geographical Segments

BUSINESS SEGMENTS

The Group is mainly engaged in electroplating equipment business and timber trading. These businesses are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Electroplating equipment	–	design, manufacturing and sale of custom-built electroplating equipment
Timber trading	–	trading of logged timber

The Group had discontinued its entertainment production and wet processing equipment operations during the year ended 31st December, 2004.

7. Business and Geographical Segments *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Segment information about these businesses is presented below.

INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2005

	Continuing operations				
	Electroplating equipment HK$'000	Timber trading HK$'000	Others HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER					
External sales	429,461	–	1,469	–	430,930
RESULTS					
Segment results	24,475	(3,117)	(3,985)	6,472	23,845
Unallocated corporate income					2,732
Unallocated corporate expenses					(17,711)
Net change in fair values of investments held for trading	–	–	(2,587)	–	(2,587)
Net realised gain on investments held for trading	–	–	688	–	688
Gain on disposal of available-for-sale investments	–	–	902	–	902
Loss on liquidation of a subsidiary	(39)	–	–	–	(39)
Gain on disposal of an associate	–	–	500	–	500
Gain on deemed acquisition of a subsidiary	–	–	552	–	552
Finance costs					(1,356)
Share of results of associates					8,281
Profit before taxation					15,807
Taxation					(2,671)
Profit for the year					13,136

7. Business and Geographical Segments *(Continued)*

BUSINESS SEGMENTS *(Continued)*

OTHER INFORMATION

FOR THE YEAR ENDED 31ST DECEMBER, 2005

	Continuing operations			
	Electroplating equipment HK$'000	Timber trading HK$'000	Others HK$'000	Consolidated HK$'000
Allowance for bad and doubtful debts	835	–	–	835
Bad debts recovered	554	–	–	554
Capital additions	3,893	–	61	3,954
Depreciation	5,527	–	200	5,757
Release of prepaid lease payments	244	–	–	244

BALANCE SHEET

AT 31ST DECEMBER, 2005

	Continuing operations			
	Electroplating equipment HK$'000	Timber trading HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	349,646	504	47,949	398,099
Unallocated corporate assets				64,617
Consolidated total assets				462,716
LIABILITIES				
Segment liabilities	175,598	14	2,101	177,713
Unallocated corporate liabilities				34,386
Consolidated total liabilities				212,099

7. Business and Geographical Segments *(Continued)*

BUSINESS SEGMENTS *(Continued)*

INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2004

	Continuing operations			Discontinued operations			
	Electroplating equipment HK$'000	Timber trading HK$'000	Others HK$'000	Wet processing equipment HK$'000	Entertainment production HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER							
External sales	515,902	31,069	1,629	53,924	4,302	–	606,826
RESULTS							
Segment results	54,098	(184)	512	4,989	(514)	6,145	65,046
Unallocated corporate income							7,835
Unallocated corporate expenses							(21,564)
Impairment loss recognised on investments in securities	–	–	(2,340)	–	–	–	(2,340)
Net unrealised gain on other investments	–	–	431	–	–	–	431
Net realised gain on other investments	–	–	939	–	–	–	939
Finance costs							(1,688)
Gain on disposal of subsidiaries							2,627
Gain on partial disposal of an associate							2,032
Share of results of associates							8,123
Profit before taxation							61,441
Taxation							(952)
Profit for the year							60,489

7. Business and Geographical Segments *(Continued)*

BUSINESS SEGMENTS *(Continued)*

OTHER INFORMATION

FOR THE YEAR ENDED 31ST DECEMBER, 2004

	Continuing operations			Discontinued operations		
	Electroplating equipment HK$'000	Timber trading HK$'000	Others HK$'000	Wet processing equipment HK$'000	Entertainment production HK$'000	Consolidated HK$'000
Allowance for bad and doubtful debts	2,294	–	774	–	–	3,068
Bad debts recovered	3,679	–	2,800	–	–	6,479
Capital and goodwill additions	10,863	–	531	1,241	–	12,635
Depreciation and amortisation	4,380	264	729	1,228	2	6,603
Release of prepaid lease payments	244	–	–	–	–	244
Impairment loss recognised in respect of property, plant and equipment	–	–	640	–	–	640
Allowance for properties held for sale	–	–	106	–	–	106
Impairment loss recognised in respect of goodwill arising on acquisition of subsidiaries	–	264	–	–	–	264
Impairment loss recognised on investments in securities	–	–	2,340	–	–	2,340

7. Business and Geographical Segments *(Continued)*

BUSINESS SEGMENTS *(Continued)*

BALANCE SHEET

AT 31ST DECEMBER, 2004

	Continuing operations			Discontinued operations		
	Electroplating equipment HK$'000	Timber trading HK$'000	Others HK$'000	Wet processing equipment HK$'000	Entertainment production HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	312,254	3,007	41,698	–	–	356,959
Unallocated corporate assets						76,319
Consolidated total assets						433,278
LIABILITIES						
Segment liabilities	170,703	25	4,751	–	–	175,479
Unallocated corporate liabilities						21,712
Consolidated total liabilities						197,191

Discontinued operations

In January 2004, the Group entered into sale agreements to partially dispose of its interests in the subsidiaries as disclosed in note 38. Subsequent to the disposal, the subsidiaries became associates of the Group and the Group ceased the entertainment production business and wet processing equipment business which were carried out by these former subsidiaries. The entertainment production business has been permanently ceased in March 2004 and the wet processing equipment business has been permanently ceased in April 2004.

The results of entertainment production business and wet processing equipment business have been included in above.

The carrying amounts of the assets and liabilities of the entertainment production business and wet processing equipment business at the date of disposal as follows:

	Entertainment production HK$'000	**Wet processing equipment HK$'000**
Total assets	229	197,697
Total liabilities	228	126,903

7. Business and Geographical Segments *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Discontinued operations *(Continued)*

During the year ended 31st December, 2004, the entertainment production operation contributed HK$891,000 to the Group's net operating cash flows.

During the year ended 31st December, 2004, the wet processing equipment operation contributed HK$17,421,000 to the Group's net operating cash flows, used HK$1,276,000 in respect of investing activities and paid HK$17,573,000 in respect of financing activities.

A gain of HK$2,499,000 and HK$128,000 arose on the disposal of entertainment production business and wet processing equipment business respectively during the year ended 31st December, 2004, being the proceeds of partial disposal less the carrying amount of the net assets disposed of.

GEOGRAPHICAL SEGMENTS

The Group's operations are mainly located in Hong Kong, the PRC, Taiwan, Europe, North America and other Asia countries.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services.

	2005 HK$'000	2004 HK$'000
Hong Kong	**50,638**	62,023
PRC	**157,678**	212,566
Taiwan	**82,837**	177,611
Europe	**48,948**	19,153
North America	**26,508**	29,746
South East Asia (other than Korea)	**41,736**	50,832
Japan and Korea	**15,860**	47,799
Others	**6,725**	7,096
	430,930	606,826

7. Business and Geographical Segments *(Continued)*

GEOGRAPHICAL SEGMENTS *(Continued)*

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Hong Kong	333,385	265,113	1,083	4,281
PRC	122,440	127,695	2,783	6,912
Taiwan	–	27,289	–	1,241
Others	6,891	13,181	88	201
	462,716	433,278	3,954	12,635

The assets of the Group's discontinued entertainment production and wet processing equipment operations were located in Hong Kong and Taiwan respectively.

8. Finance Costs

	2005 HK$'000	2004 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,338	1,656
Finance leases	18	32
	1,356	1,688

9. Gain on Partial Disposal of an Associate

Subsequent to the partial disposal of the Group's interest in IML as disclosed in note 38 during the year ended 31st December, 2004, the Group had further disposed of approximately 2% interest in IML for a consideration of HK$4,029,000 resulting in a gain of HK$2,032,000 for the year ended 31st December, 2004.

10. Profit Before Taxation

	2005 HK$'000	2004 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	1,111	1,339
Depreciation and amortisation		
Depreciation of property, plant and equipment	5,727	6,328
Amortisation of goodwill arising on acquisitions of subsidiaries (included in administrative expenses)	–	264
Amortisation of intangible assets (included in administrative expenses)	–	11
	5,727	6,603
Release of prepaid lease payments	244	244
Operating lease payments in respect of:		
Rented premises	967	312
Loss on write-off of intangible assets	77	–
Net exchange (gain) loss	(49)	372
Staff costs:		
Directors' remuneration *(note 11)*	8,030	10,420
Salaries and allowances	58,288	81,999
Contributions to retirement benefits schemes, excluding directors	1,993	2,083
	68,311	94,502
Allowance (reversal of allowance) for slow moving inventories	3,080	(823)
Share of tax of an associate (included in share of results of associates)	1,364	(17)
Interest earned on bank deposits	(313)	(42)
Other interest income	(36)	(9)
Dividend income		
– Listed	(25)	(444)
– Unlisted	(6)	(132)
Gain on disposal of property, plant and equipment	(125)	(643)
Gain on disposal of properties held for sale	(8)	–
Bad debts recovered *(Note)*	(554)	(6,479)

Note: The amount represented the collection from the trade debtors and loan borrowers written off in prior periods.

11. Directors' Emoluments

The emoluments paid or payable to each of the six (2004: five) directors were as follows:

	Lam Kwok Hing HK$'000	Nam Kwok Lun HK$'000 (note a)	Lam Kwok Yan HK$'000 (note b)	Kwan Wang Wai, Alan HK$'000	Ng Chi Kin, David HK$'000	Cheung Kin Wai HK$'000	Total 2005 HK$'000
Fees	–	–	–	60	60	60	180
Other emoluments							
Salaries and other benefits	3,929	3,555	343	–	–	–	7,827
Contributions to retirement benefits schemes	12	9	2	–	–	–	23
Total emoluments	3,941	3,564	345	60	60	60	8,030

	Lam Kwok Hing HK$'000	Lam Kwok Yan HK$'000 (note b)	Kwan Wang Wai, Alan HK$'000	Ng Chi Kin, David HK$'000	Cheung Kin Wai HK$'000	Total 2004 HK$'000
Fees	–	–	60	60	60	180
Other emoluments						
Salaries and other benefits	6,608	3,608	–	–	–	10,216
Contributions to retirement benefits schemes	12	12	–	–	–	24
Total emoluments	6,620	3,620	60	60	60	10,420

Notes:

(a) Appointed on 5th February, 2005.

(b) Resigned on 5th February, 2005.

No compensation was paid to any directors of the Company during the year for the loss of office as director of the Company. None of the directors of the Company has waived any emoluments during the year.

12. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, two (2004: two) were directors of the Company whose emoluments are included in note 11. The emoluments of the remaining three (2004: three) individuals were as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**4,157**	4,214
Contributions to retirement benefits schemes	**36**	36
	4,193	4,250

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
HK$1,000,001 – HK$1,500,000	**2**	2
HK$1,500,001 – HK$2,000,000	**1**	1

13. Taxation

The taxation charge comprises:

	2005 HK$'000	2004 HK$'000
Hong Kong Profits Tax		
Charge for the year	2,029	142
Overprovision in prior years	(99)	(45)
	1,930	97
Overseas taxation		
Charge for the year	741	956
Underprovision in prior years	–	5
	741	961
Deferred taxation *(note 36)*		
Current year	–	(106)
Taxation attributable to the Company and its subsidiaries	2,671	952

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for year.

Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries was entitled to exemption from PRC enterprise income tax for the first two years commencing from its first profit-making year of operation and thereafter, the PRC subsidiary will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is 7.5%. The charge of PRC enterprise income tax for the year ended 31st December, 2004 had been provided for after taking these tax incentives into account. The tax exemption period has been expired as at 31st December, 2004.

Overseas taxation is calculated at the rates prevailing in the relevant jurisdiction.

13. Taxation *(Continued)*

The charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	2005 HK$'000	2004 HK$'000
Profit before taxation	15,807	61,441
Tax at the income tax rate of 17.5%	2,766	10,752
Tax effect of share of results of associates	(1,449)	(1,422)
Tax effect of expenses not deductible for tax purpose	1,051	636
Tax effect of income not taxable for tax purpose	(495)	(2,378)
Overprovision in respect of prior years	(99)	(40)
Tax effect of deferred tax asset in respect of tax losses not recognised	3,245	3,303
Utilisation of tax losses previously not recognised	(2,005)	(8,894)
Effect of tax exemption granted to a PRC subsidiary	–	(838)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(405)	(193)
Others	62	26
Taxation for the year	2,671	952

14. Earnings per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	2005 HK$'000	2004 HK$'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the parent)	13,413	58,766
Weighted average number of ordinary shares for the purpose of basic earnings per share	426,463	340,573
Effect of dilutive potential ordinary shares for convertible note		29,178
Weighted average number of ordinary shares for the purpose of diluted earnings per share		369,751

14. Earnings per Share *(Continued)*

The computation of diluted earnings per share for the year ended 31st December, 2004 did not assume the exercise of the Company's share options as the exercise price of those options was higher than the average market price of shares for that year.

15. Property, Plant and Equipment

	Buildings	Furniture and fixtures	Leasehold improvements	Plant, machinery and equipment	Motor vehicles	Audio equipment	Lighting equipment	Antenna and antenna control equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP									
COST OR VALUATION									
At 1st January, 2004	167,400	13,232	3,493	67,222	11,438	7,767	5,931	15,557	292,040
Currency realignment	246	15	–	3	13	–	–	–	277
Additions	157	955	1,984	6,364	687	–	–	–	10,147
Acquisition of a subsidiary	–	35	–	–	–	–	–	–	35
Disposals	–	(242)	–	(2,164)	(692)	–	–	–	(3,098)
Disposal of subsidiaries	(82,593)	(6,332)	(147)	(19,923)	(1,567)	–	–	(7,310)	(117,872)
At 1st January, 2005	85,210	7,663	5,330	51,502	9,879	7,767	5,931	8,247	181,529
Currency realignment	1,280	87	38	362	53	–	–	–	1,820
Additions	155	220	200	2,648	731	–	–	–	3,954
Disposals	–	(93)	–	(1,477)	(446)	–	–	–	(2,016)
At 31st December, 2005	**86,645**	**7,877**	**5,568**	**53,035**	**10,217**	**7,767**	**5,931**	**8,247**	**185,287**
COMPRISING									
At cost	9,433	7,877	5,568	53,035	10,217	7,767	5,931	8,247	108,075
At valuation									
– 31st March, 1992	35,712	–	–	–	–	–	–	–	35,712
– 31st March, 1994	41,500	–	–	–	–	–	–	–	41,500
	86,645	7,877	5,568	53,035	10,217	7,767	5,931	8,247	185,287

15. Property, Plant and Equipment *(Continued)*

	Buildings HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Plant, machinery and equipment HK$'000	Motor vehicles HK$'000	Audio equipment HK$'000	Lighting equipment HK$'000	Antenna and antenna control equipment HK$'000	Total HK$'000
DEPRECIATION, AMORTISATION AND IMPAIRMENT									
At 1st January, 2004	21,974	10,344	3,357	54,272	10,094	6,216	4,747	15,557	126,561
Currency realignment	46	12	–	32	9	–	–	–	99
Provided for the year	2,168	549	85	982	449	1,204	891	–	6,328
Impairment loss recognised for the year	–	–	–	–	–	347	293	–	640
Eliminated on disposals	–	(220)	–	(2,025)	(536)	–	–	–	(2,781)
Eliminated on disposal of subsidiaries	(6,214)	(4,334)	(28)	(11,961)	(903)	–	–	(7,310)	(30,750)
At 1st January, 2005	17,974	6,351	3,414	41,300	9,113	7,767	5,931	8,247	100,097
Currency realignment	234	62	2	230	45	–	–	–	573
Provided for the year	2,092	340	414	2,505	376	–	–	–	5,727
Eliminated on disposals	–	(90)	–	(1,368)	(446)	–	–	–	(1,904)
At 31st December, 2005	**20,300**	**6,663**	**3,830**	**42,667**	**9,088**	**7,767**	**5,931**	**8,247**	**104,493**
NET BOOK VALUES									
At 31st December, 2005	**66,345**	**1,214**	**1,738**	**10,368**	**1,129**	**–**	**–**	**–**	**80,794**
At 31st December, 2004	67,236	1,312	1,916	10,202	766	–	–	–	81,432

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	20 – 50 years
Furniture and fixtures	25%
Leasehold improvements	25%
Plant, machinery and equipment	$12^1/_2$% to $33^1/_3$%
Motor vehicles	$33^1/_3$%
Audio equipment	$12^1/_2$%
Lighting equipment	$12^1/_2$%
Antenna and antenna control equipment	10% to $12^1/_2$%

15. Property, Plant and Equipment *(Continued)*

During the year ended 31st December, 2004, due to the stagnant development of the equipment leasing business, the directors considered impairment of HK$640,000 was required to be recognised for the year ended 31st December, 2004.

The net book value of property, plant and equipment includes an amount of HK$174,000 (2004: HK$295,000) in respect of assets held under finance leases.

Had the buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of the buildings would have been stated at HK$44,176,000 (2004: HK$45,298,000).

16. Prepaid Lease Payments

	2005 HK$'000	2004 HK$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in Hong Kong	**2,886**	2,958
Medium-term leasehold land in the PRC	**6,112**	6,284
	8,998	9,242
Analysed for reporting purposes as:		
Current year	**244**	244
Non-current asset	**8,754**	8,998
	8,998	9,242

17. Properties Held for Development

	2005 HK$'000	2004 HK$'000
Properties held for development, at cost	**11,836**	11,836
Less: Impairment loss recognised	**(7,456)**	(7,456)
	4,380	4,380

In the opinion of the directors of the Company, as at 31st December, 2005, there was no significant difference in the carrying amount and the estimated recoverable amount, which has been determined based on the expected net cash inflow of the properties held for development.

The land is situated in Hong Kong and is held under a medium-term lease.

18. Goodwill

	HK$'000
COST	
At 1st January, 2004	45,808
On acquisition of a subsidiary *(notes 39)*	2,488
Eliminated on disposal of a subsidiary	(630)
At 1st January, 2005	47,666
Eliminated of accumulated amortisation upon application of HKFRS 3 *(note 2)*	(45,178)
At 31st December, 2005	2,488
AMORTISATION AND IMPAIRMENT LOSS	
At 1st January, 2004	45,280
Charge for the year	264
Impairment loss recognised for the year	264
Eliminated on disposal of a subsidiary	(630)
At 1st January, 2005	45,178
Eliminated of accumulated amortisation upon application of HKFRS 3 *(note 2)*	(45,178)
At 31st December, 2005	–
CARRYING VALUES	
At 31st December, 2005 and 2004	2,488

Until 31st December, 2004, goodwill had been amortised over its estimated useful life, ranging from 7 to 10 years.

As a consequence of a change to the original business plan, the Group reassessed the recoverable amount of its investment in the timber trading business based on the present value of the expected future revenue arising from trading of timber, which was derived from discounting the projected cash flows by an implicit rate of return of 4.3%. Based on this reassessment, the directors considered a further impairment of HK$264,000 was required to be recognised during the year ended 31st December, 2004 for the goodwill arising from the acquisition of the subsidiary engaged in the timber trading business.

19. Intangible Assets

	Patents HK$'000
COST	
At 1st January, 2004 and 1st January, 2005	218
Write-off	(218)
At 31st December, 2005	–
AMORTISATION	
At 1st January, 2004	130
Provided for the year	11
At 1st January, 2005	141
Eliminated on write-off	(141)
At 31st December, 2005	–
CARRYING VALUES	
At 31st December, 2005	–
At 31st December, 2004	77

The amortisation period adopted for patents is 20 years.

20. Interests in Associates

	2005 HK$'000	2004 HK$'000
Cost of investment in associates		
Unlisted	2,254	19
Quoted shares in Taiwan	20,192	20,192
Share of post-acquisition profits	16,656	8,375
Share of currency translation reserve	1,145	1,247
Share of net assets	40,247	29,833
Market value of quoted shares	67,363	44,854

20. Interests in Associates *(Continued)*

Details of the Group's associates as at 31st December, 2005 are as follows:

Name of associate	Form of business structure	Place of incorporation	Proportion of nominal value of issued capital held by the Group	Principal activities
IML	Incorporated	Taiwan	28.57%	Design, manufacture and sale of wet processing equipment
Asia Vigour (Holdings) Limited ("AVPH")	Incorporated	British Virgin Islands	42.00%	Investment holding
SunArt Entertainment Limited	Incorporated	Hong Kong	50.00%	Organising arts performance and social functions
Qmem Technology Holdings Limited	Incorporated	British Virgin Islands	31.84%	Trading of memory storage card

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

	2005 HK$'000	2004 HK$'000
Total assets	434,733	308,192
Total liabilities	(296,108)	(207,066)
Net assets	138,625	101,126
Group's share of net assets of associates	40,247	29,833
Turnover	499,314	467,352
Profit for the year	30,630	29,987
Group's shares of results of associates for the year	8,281	8,123

21. Available-For-Sale Investments

Available-for-sale investments as at 31st December, 2005 comprise:

	2005 HK$'000
Equity securities shown as non-current assets:	
Unlisted shares	515

At the balance sheet date, all available-for-sale investments are stated at cost less impairment loss recognised as the fair value cannot be measured reliably.

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in Germany and British Virgin Islands. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

In the current year, the Group disposed of certain unlisted equity securities with carrying amount of HK$9,000, which had been carried at cost less impairment before the disposal. A gain on disposal of HK$902,000 has been recognised in profit or loss for the current year. Out of the total consideration of HK$911,000, a deferred consideration of HK$865,000 is included in debtors, deposits and prepayment.

22. Investments Held for Trading

Investments held for trading as at 31st December, 2005 represent equity securities listed in Hong Kong. The fair values of the investments held for trading are determined based on the quoted market bid prices available on the relevant exchanges.

23. Investments in Securities

Investment securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, investment securities were reclassified to appropriate categories under HKAS 39 (see Note 2 for details).

	HK$'000
Investment securities shown as non-current assets:	
Unlisted shares, at cost less impairment loss recognised	524
Other investments shown as current assets:	
Listed shares, at market value	12,947

During the year ended 31st December, 2004, the directors reviewed the carrying value of the investment securities with reference to their fair value and determined to recognise an impairment loss of HK$2,340,000.

24. Loans Receivable

The following is the maturity profile of loans receivable at the balance sheet date:

	2005 HK$'000	2004 HK$'000
Repayable within 3 months	**2,779**	3,257
Repayable after 3 months but within 6 months	**61**	59
Repayable after 6 months but within 1 year	**846**	120
Total repayable within 1 year	**3,686**	3,436
Repayable after 1 year, but not exceeding 2 years	**–**	800
Repayable after 2 years but not more than 5 years	**164**	–
More than 5 years	**1,112**	1,502
Total	**4,962**	5,738
Secured	**4,962**	5,508
Unsecured	**–**	230
	4,962	5,738

24. Loans Receivable *(Continued)*

The range of effective interest rates, which are equal to contractual interest rates, on the Group's loan receivables is from Hong Kong prime rate minus 2% to Hong Kong prime rate plus 3% (2004: Hong Kong prime rate minus 2% to Hong Kong prime rate plus 1.5%).

The directors consider that the carrying amount of borrowings approximate their fair value.

25. Inventories

	2005 HK$'000	2004 HK$'000
Raw materials	34,586	38,157
Finished goods	373	1,729
	34,959	39,886

Cost of inventories recognised as an expense during the year is HK$228,278,000 (2004: HK$367,527,000).

26. Properties Held for Sale

	2005 HK$'000	2004 HK$'000
Properties held for sale, at cost	–	3,504
Allowance made	–	(106)
	–	3,398

The land was situated in Hong Kong and is held under a medium-term lease. The cost of properties has been written down to their net realisable value at 31st December, 2004, being the net sale proceeds from the disposal during the year ended subsequent to 31st December, 2005.

27. Amounts Due from (to) Customers for Contract Work

	2005 HK$'000	2004 HK$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred	82,057	73,749
Recognised profits less recognised losses	19,535	12,550
	101,592	86,299
Progress billings	(88,700)	(67,693)
	12,892	18,606
Represented by:		
Due from customers included in current assets	24,260	28,379
Due to customers included in current liabilities	(11,368)	(9,773)
	12,892	18,606

At the balance sheet date, there were no retention monies held by customers for contract work performed. At 31st December, 2005, advances received from customers for contract work performed amounted to HK$6,787,000 (2004: HK$8,085,000) which were included in creditors, bills payable and accrued charges.

28. Debtors, Deposits and Prepayments

	2005 HK$'000	2004 HK$'000
Trade debtors	157,607	125,338
Other debtors and prepayments	19,033	16,285
	176,640	141,623

The Group allows a general credit period of one month to its trade customers except construction contracts where the Group allows progress payments. In general, credit will only be offered to customers in accordance with their financial credit abilities and an established payment records.

28. Debtors, Deposits and Prepayments *(Continued)*

The following is an aged analysis of trade debtors and bills receivable as at the balance sheet date:

	2005 HK$'000	2004 HK$'000
Current	144,355	63,758
Overdue by:		
0 – 60 days	5,060	30,928
61 – 120 days	3,009	7,444
121 – 180 days	1,866	10,665
Over 180 days	3,317	12,543
	157,607	125,338

The fair value of the Group's trade debtors at 31st December, 2005 approximates to the corresponding carrying amount.

29. Amounts Due From/To Associates

The amounts are unsecured and repayable on demand. The amounts due from associates included HK$945,000 (2004: nil) which bears interest at Hong Kong prime rate plus 2% per annum and HK$630,000 (2004: nil) which bears interest at Hong Kong prime rate. The remaining balance is non-interest bearing. The fair value of the amounts at 31st December, 2005 approximates to the carrying amount.

30. Pledged Bank Deposits and Bank Balances

The amount represents deposits pledged to a bank to secure a banking facility of short term borrowing granted to the Group and is therefore classified as a current asset. The pledged bank deposit carried average fixed interest rate of 3.49% (2004: 0.01%) and will be released upon the settlement of relevant bank borrowings. Bank deposits are short term highly liquid investments carrying interest at market rate 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.

The fair value of pledged bank deposits and bank balances at 31st December, 2005 approximates to the corresponding carrying amount.

31. Creditors, Bills Payable and Accrued Charges

	2005 HK$'000	2004 HK$'000
Trade creditors	77,917	76,954
Bills payable	913	1,553
Other creditors and accrued charges	87,360	86,635
	166,190	165,142

The following is an aged analysis of trade creditors as at the balance sheet date:

	2005 HK$'000	2004 HK$'000
0 – 60 days	43,205	42,058
61 – 120 days	13,974	17,462
121 – 180 days	14,847	14,013
Over 180 days	5,891	3,421
	77,917	76,954

The fair value of the Group's creditors, bills payable and accrued charges at 31st December, 2005 approximates to the corresponding carrying amount.

32. Borrowings

	2005 HK$'000	2004 HK$'000
The borrowings comprise the following:		
Bank overdrafts	830	–
Trust receipt loans	4,315	1,186
Bank loans	2,765	15,637
Other bank loans	20,990	–
	28,900	16,823
Secured	28,070	15,637
Unsecured	830	1,186
	28,900	16,823

The above amounts are repayable within one year and classified as current liabilities.

32. Borrowings *(Continued)*

All the above bank borrowings are variable-rate borrowings with effective interest rates ranging from 3.18% to 6.25% (2004: 5.50% to 6.40%) denominated in Hong Kong Dollars or United States Dollars. Interest is normally adjusted when Hong Kong prime rate or LIBOR is adjusted.

The borrowings that are denominated in currencies other than the functional currency are set out below:

Group's	RMB '000	JPY '000	EUR '000	USD '000
As at 31st December, 2005	2,880	4,056	45	2,959
As at 31st December, 2004	16,600	–	61	20

The directors consider that the carrying amount of borrowings approximates their fair value.

33. Obligations under Finance Leases

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Amounts payable under finance leases:				
Within one year	**220**	234	**207**	215
In the second to fifth year inclusive	**10**	240	**8**	227
	230	474	**215**	442
Less: Future finance charges	**(14)**	(32)	**–**	–
Present value of lease obligations	**216**	442	**215**	442
Less: Amount due for settlement within one year (shown under current liabilities)			**(207)**	(215)
Amount due for settlement after one year			**8**	227

33. Obligations under Finance Leases *(Continued)*

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 3 years. For the current year, the average effective borrowing rates was approximately 3% per annum (2004: 3% per annum). Interest rate is fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The fair value of the obligations under finance leases as at 31st December, 2005 approximates to the corresponding carrying amount.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

34. Share Capital

	Number of shares	Amount HK$'000
Shares of HK$0.01 each		
Authorised:		
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	20,000,000,000	200,000
Issued and fully paid:		
At 1st January, 2004, shares of HK$0.01 each	5,529,268,000	55,293
Share consolidation, shares of HK$0.20 each	(5,252,804,600)	–
Capital reduction, shares of HK$0.01 each	–	(52,528)
Conversion of convertible note, shares of HK$0.01 each	150,000,000	1,500
At 31st December, 2004 and 31st December, 2005, shares of HK$0.01 each	426,463,400	4,265

Pursuant to a resolution passed at a special general meeting held on 23rd April, 2004, the Company carried out a capital reorganisation ("Capital Reorganisation") as follows:

(a) consolidated every 20 issued shares of HK$0.01 each in the capital of the Company into one share ("Consolidated Share") of HK$0.20 each (the "Share Consolidation"). Accordingly, on the basis of 5,529,268,000 issued shares, the issued share capital of the Company comprised of 276,463,400 shares upon the Share Consolidation; and

34. Share Capital *(Continued)*

(b) upon completion of the Share Consolidation, the value of every issued Consolidated Share was reduced from HK$0.20 into HK$0.01 each by cancellation of HK$0.19 paid up capital on each Consolidated Share. As a result of the capital reduction, on the basis of 276,463,400 issued shares, an amount of HK$52,528,000 from the share capital account was transferred to the contributed surplus account of the Company.

(c) cancelled the entire amount of HK$353,062,000 standing to the credit to the share premium account of the Company ("Share Premium Cancellation");

(d) the credit amount of HK$353,062,000 arising from the Share Premium Cancellation was applied to the contributed surplus account of the Company; and

(e) an amount of HK$356,653,000 was transferred from the contributed surplus account to the deficit account of the Company to eliminate the deficit of the Company of HK$356,653,000 at 26th April, 2004, being the effective date of the capital reorganisation, in accordance with the Bye-laws of the Company and all applicable laws.

On 29th July, 2004, a wholly-owned subsidiary of Karl Thomson Holdings Limited ("KTH"), a company in which Mr. Lam Kwok Hing, the Chairman of the Company and also the major shareholder of KTH, converted the HK$30 million convertible note into 150,000,000 shares of HK$0.01 each in the Company at a conversion price of HK$0.2 per share (Note 37).

35. Share Option Schemes

One of the Company's share options schemes adopted on 1st January, 2001 (the "Old Scheme") was for the purpose of providing incentive to directors and eligible staff. Under the Old Scheme, the directors may grant options to executive directors and employees of the Company or any of its subsidiaries to subscribe for shares of the Company. The subscription price of shares under the Old Scheme shall be calculated at the discretion of the directors at an amount not more than a 20% discount to the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for one or more board lots of shares on the five trading days immediately preceding the date of grant of the option provided that in no circumstances shall the subscription price be less than the par value of a share. No consideration is payable on the acceptance of an option. The aggregate number of shares in respect of which options may be granted pursuant to the Old Scheme to any individual shall not exceed 10% of the maximum number of shares in respect of which options may be granted under the Old Scheme and any other schemes. The total number of shares in respect of which options may be granted under the Old Scheme (including shares issued pursuant to options exercised under the Old Scheme and shares in respect of which any options are outstanding) shall at all times when aggregated with any shares subject to other schemes be limited to 10% of the issued share capital of the Company from time to time.

35. Share Option Schemes *(Continued)*

The Old Scheme remained in force for a period of ten years from the date of its adoption.

Pursuant to the Old Scheme, the Company had granted options on 30th August, 2001 to the following directors of the Company and the employees, exercisable at any time from 7th September, 2001 and during the employment with the Company and its subsidiaries to 6th September, 2004:

		Number of share options		
Name	Exercise price per share HK$	Outstanding at 1st January, 2004	Lapsed during the year ended 31st December, 2004	Outstanding at 31st December, 2004 and 2005
Directors				
Lam Kwok Yan	1.06	5,725,000	(5,725,000)	–
Lam Kwok Hing	1.06	5,725,000	(5,725,000)	–
Others				
Other employees	1.06	1,657,000	(1,657,000)	–
		13,107,000	(13,107,000)	–

No share options were granted or exercised under the Old Scheme during the year ended 31st December, 2004.

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 13th June, 2005, the Company adopted a new share option scheme (the "New Scheme") and terminated the Old Scheme which became effective on 13th June, 2005. The purpose of the New Scheme is to enable the Company to grant option to the eligible participants as incentives and rewards for their contribution to the Company or its subsidiaries.

The subscription price for a share in respect of any particular option granted under the New Scheme (which shall be payable upon exercise of the option) shall be such prices as the directors in its absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

35. Share Option Schemes *(Continued)*

Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

The maximum number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other option scheme(s) of the Company must not exceed 10% of the shares in issue, i.e. 42,646,340 shares on the date of approval and adoption of the New Scheme by the shareholders.

The total number of shares issued and which may fall to be issued upon exercise of options granted under the New Scheme and any other option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

The New Scheme shall be valid and effective for a period of 10 years commencing from the date of its adoption.

No share options were granted or exercised under the New Scheme during the year ended 31st December, 2005.

36. Deferred Taxation

The following is the deferred tax liabilities recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1st January, 2004				
– as previously reported	336	(230)	3,721	3,827
– effect of change on accounting policies	–	–	(645)	(645)
– as restated	336	(230)	3,076	3,182
Charge (credit) to income statement for the year	79	(185)	–	(106)
At 1st January, 2005 and 31st December, 2005	415	(415)	3,076	3,076

36. Deferred Taxation *(Continued)*

At 31st December, 2005, the Group has estimated unused tax losses of HK$169,377,000 (2004: HK$162,305,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$2,373,000 (2004: HK$2,373,000) of the tax losses. No deferred tax asset has been recognised of the remaining estimated tax losses of HK$167,004,000 (2004: HK$159,932,000) due to the uncertainty of future profits streams. The tax losses may be carried forward indefinitely.

37. Convertible Note

On 6th February, 2004, the Company entered into a subscription agreement (the "Agreement") with KTH. On 20th May, 2004, the Company issued a convertible note in accordance with the Agreement for a consideration of HK$30 million to KTH. The term of the convertible note was 2 years from the date of issue and non-interest bearing.

On 29th July, 2004, the HK$30 million convertible note was converted into 150,000,000 shares of HK$0.01 each in the Company at a conversion price of HK$0.2 per share.

The issue of convertible note constituted a connected transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange. The details were disclosed in a circular issued by the Company on 31st March, 2004.

38. Liquidation/Disposal of Subsidiaries

During the year, the Group liquidated a subsidiary, Beijing Haoyuan Power Equipment Company Limited.

On 19th January, 2004 and 27th January, 2004, the Group entered into agreements to partially dispose of its interests in the subsidiaries, AVPH and IML which carried out all the Group's entertainment production business and wet processing equipment business respectively. According to the agreement entered on 19th January, 2004, 18% interests in AVPH was disposed to a director of AVPH. The disposals were completed on 5th March, 2004 and 1st April, 2004 respectively, on which date control on the above subsidiaries was passed to acquirers. The Group's remaining interests in the above subsidiaries were classified as interests in associates.

The results of the entertainment production business and wet processing equipment business for the year were included in note 7.

38. Liquidation/Disposal of Subsidiaries *(Continued)*

The net assets of above subsidiaries at the date of disposal were as follows:

	2005 HK$'000	2004 HK$'000
NET ASSETS DISPOSED OF		
Property, plant and equipment	–	87,122
Inventories	–	24,071
Amounts due from customers for contract work	–	26,394
Debtors, deposits and prepayments	1,303	55,777
Amount due from a group company	–	879
Taxation recoverable	–	3
Bank balances and cash	–	3,666
Creditors, bills payable and accrued charges	–	(84,061)
Borrowings	–	(42,966)
Obligations under finance leases	–	(90)
	1,303	70,795
Minority interests	(1,251)	(35,365)
	52	35,430
Currency translation reserve realised	(13)	3,410
	39	38,840
Interests in associates	–	(21,798)
(Loss) gain on liquidation/disposal	(39)	2,627
Total consideration	–	19,669
Satisfied by:		
Cash	–	19,669
Net cash inflow arising on disposals:		
Cash consideration	–	19,669
Bank balances and cash disposed of	–	(3,666)
	–	16,003

The subsidiary liquidated during the year did not have any material effect on the Group's turnover, profit before taxation and cash flow.

The subsidiaries disposed of during the prior year contributed HK$58,226,000 to the Group's turnover and HK$4,041,000 to the Group's profit before taxation.

39. Acquisition of a Subsidiary

On 1st October, 2004, the Group acquired 100% of the issued share capital of PAL Control Sdn. Bhd. for a consideration of HK$1,538,000. This acquisition had been accounted for by the acquisition method of accounting.

	Acquiree's carrying amount before combination and Fair value HK$'000
NET LIABILITIES ACQUIRED	
Property, plant and equipment	35
Trade and other receivable	274
Bank balances and cash	46
Creditors and accrued charges	(1,305)
	(950)
Goodwill	2,488
Total consideration	1,538
Satisfied by cash	1,538
Net cash outflow arising on the acquisition of a subsidiary	
Cash consideration	1,538
Bank balances and cash acquired	(46)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	1,492

The subsidiary acquired during the year ended 31st December, 2004 had no significant contributions to the Group's turnover and profit before taxation.

40. Major Non-Cash Transaction

During the year, certain loan borrowers had transferred properties held for sale with value of HK$2,702,000 to settle loans due to the Group. The properties held for sale have been disposed by the Group during the year.

During the year, the Group disposed of its entire interest in an associate, Sunlit Resources Limited, at a consideration of HK$519,000. Out of the total consideration, HK$190,000 is a deferred consideration and included in debtors, deposits and prepayment.

41. Commitments

LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005 HK$'000	2004 HK$'000
Within one year	188	171

Operating lease payments represent rentals payable by the Group for its factory premises and staff quarters in the PRC. Leases are negotiated for an average term of five years and rentals are fixed for the leased period.

42. Contingent Liabilities

	2005 HK$'000	2004 HK$'000
Export bills discounted with recourse	–	10,125

43. Pledge of Assets

The Group has pledged its buildings in the PRC with an aggregate net book value of approximately HK$7,500,000 (2004: HK$39,000,000) and bank deposits of HK$6,000,000 (2004: HK$5,900,000) to secure general banking facilities granted to the Group.

44. Retirement Benefits Schemes

Since 1st December, 2000, the Group has operated pension schemes under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately in an independently managed fund. The Group has followed the minimum statutory contribution requirements of 5% of eligible employees' relevant aggregate income. The contributions are charged to the income statement as incurred.

The relevant PRC subsidiaries are required to make contributions to the state-managed schemes in the PRC based on a certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

44. Retirement Benefits Schemes *(Continued)*

In addition, a subsidiary operates funded defined benefits pension scheme (the "ORSO Scheme") for all its qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The most recent actuarial valuation of plan assets and liabilities of the ORSO Scheme was carried out at 31st December, 2005 by qualified staff of HSBC Life (International) Limited, who are members of the Society of Actuaries of the United States of America. The present value of the ORSO Scheme and the related current service cost were measured using the projected unit credit method. The main actuarial assumptions used were as follows:

	2005	2004
Discount rate	**4.25% per annum**	5.0% per annum
Expected return on ORSO Scheme assets	**N/A**	6.0% per annum
Expected salary increase rate	**3.25% per annum**	4.0% per annum

The actuarial valuation showed that the market value of ORSO Scheme assets was HK$1,283,000 (2004: HK$725,000) and that the actuarial value of these assets represented 91.7% (2004: 60.3%) of the benefits that had accrued to members.

Amount recognised in the consolidated income statement in respect of the ORSO Scheme is as follows:

	2005 **HK$'000**	2004 HK$'000
Current service cost	**84**	81
Interest cost	**60**	52
Expected return on plan assets	**(58)**	(26)
Net actuarial gain recognised in the year	**–**	(7)
Administrative cost and group life premium deducted from contribution	**20**	20
Expense recognised in the consolidated income statement	**106**	120

The charge for the year has been included in staff costs.

44. Retirement Benefits Schemes *(Continued)*

The actual return on plan assets was HK$63,000 (2004: HK$47,000).

The amount included in the consolidated balance sheet arising from the Group's obligations in respect of the ORSO Scheme is as follows:

	2005 HK$'000	2004 HK$'000
Present value of the obligations	1,399	1,203
Fair value of plan assets	(1,283)	(725)
Unrecognised actuarial gains	39	86
Current liability recognised in the consolidated balance sheet	155	564

Movements in the net liability in the current year were as follows:

	2005 HK$'000	2004 HK$'000
Opening net liability	564	957
Expense as above	106	120
Contributions paid by employer, including administrative cost and group life premium that are deducted from contribution	(515)	(513)
Closing net liability	155	564

45. Principal Subsidiaries

Details of the principal subsidiaries as at 31st December, 2005 are as follows:

Name of subsidiary	Place/country of incorporation/ registration	Issued and fully paid up ordinary share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
AVP Equipment Limited	Hong Kong	HK$2	–	100	Equipment leasing
ATNT Global Investments Company Limited	Hong Kong	HK$2	–	100	Securities trading
ATNT Group Management Limited	Hong Kong	HK$2	–	100	Management services
Beijing Golden PAL Plating Equipment Company Limited (Sino-foreign equity joint venture)	PRC	US$1,291,500	–	52	Design, manufacture and sale of electroplating machines and other automated equipment
Dragon Will Investment Limited	British Virgin Islands*	US$1	–	100	Investment holding
Fairway Int'l Limited	British Virgin Islands*	US$1	–	100	Investment holding
Golden Rainbow Investments Limited	British Virgin Islands*	US$1	–	100	Property investment
Happy Treasure Limited	Hong Kong	HK$2	–	100	Timber trading
Happy Win Resources Limited	British Virgin Islands*	US$1	100	–	Investment holding
Hovington Agents Limited	British Virgin Islands*	US$1	–	100	Investment holding
Longfaith Holdings Limited	British Virgin Islands*	US$1	–	100	Investment holding

45. Principal Subsidiaries *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration	Issued and fully paid up ordinary share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Palcon International Limited	British Virgin Islands*	US$100	–	60	Investment holding
PAL Control Sdn. Bhd	Malaysia	MYR2	–	60	Software development
PAL Europe Limited	Hong Kong	HK$2	–	100	Sale of electroplating machines
PAL Finance Limited	Hong Kong	HK$2	–	100	Money lending
PAL Properties Investment Limited	British Virgin Islands*	US$1	–	100	Investment holding
PAL SEA Limited	British Virgin Islands*	US$100	–	60	Investment holding
PAL (Sea) Sdn. Bhd.	Malaysia	MYR300,000	–	60	Sale of electroplating machines
PAL Service Sdn. Bhd.	Malaysia	MYR50,002	–	60	Sale of electroplating machines and spare parts
Process Automation (BVI) Limited	British Virgin Islands*	HK$110,000	100	–	Investment holding
Process Automation (China) Limited (Wholly foreign-owned enterprise ("WFOE"))	PRC	HK$1,500,000	–	100	Design, manufacture and sale of electroplating machines

45. Principal Subsidiaries *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration	Issued and fully paid up ordinary share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Process Automation (Europe) Limited	The United Kingdom	GBP1	–	100	Sale of electroplating machines
Process Automation International Limited ("PAIL")	Hong Kong	HK$2 (note)	–	100	Design, manufacture and sale of electroplating machines
Process Automation (Shenzhen) Limited ("WFOE")	PRC	HK$18,000,000	–	100	Design, manufacture and sale of electroplating machines
Rich Town Properties Limited	British Virgin Islands*	US$2	–	100	Property investment
Strength Hope Limited	British Virgin Islands*	US$1	100	–	Investment holding

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

* *The subsidiaries operate in Hong Kong. The remaining subsidiaries operate in their places of incorporation.*

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

Note: At 31st December, 2005, PAIL had outstanding 11,000,000 non-voting deferred shares of HK$1 each which were held by Process Automation (BVI) Limited. The deferred shares carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of PAIL and practically carry no rights to participate in any distribution on winding up.

46. Related Party Transaction

During the year, Mr. Lam Kwok Yan, the former Chairman of the Company has transferred 1,000 shares in Asia Nice Art Production Limited ("ANA") to the Group at nil consideration. The transfer represented 10% interest in the entire issued capital of ANA. The net assets of ANA at the date of transfer were HK$5,524,000 and therefore the deemed benefits transferred to the Group were HK$552,000.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of key management of the Group during the year as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other short-term employee benefits	13,371	15,802
Retirement benefits costs	83	84
	13,454	15,886

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trend.