Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION

Bright International Group Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. During the year, the Group was involved in investment holding and the design, manufacture and sale of lighting products.

In the opinion of the directors, the parent and the ultimate holding company of the Group is Bright International Assets Inc., which is incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, buildings and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

Notes to Financial Statements (continued)

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 33 and 37, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

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

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

Notes to Financial Statements (continued)

31 December 2005

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

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

(a) HKAS 17 – Leases

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

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

This change in accounting policy has had no effect on the consolidated financial statements.

(b) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$2,707,000 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any changes in the measurement of these equity securities.

(c) HKAS 40 – Investment Property

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

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. In accordance with the transitional provisions of HKAS 40, the opening balance of retained profits has been restated to reflect this change. The effects of the above change are summarised in note 2.4 to the financial statements.

Notes to Financial Statements (continued)

31 December 2005

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

The impact of adopting the others HKFRSs is summarised as follows: (continued)

(d) HKFRS 2 – Share-based Payment

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

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

There were no share options granted by the Company to its directors and employees under the share option scheme since its adoption. Accordingly, the adoption of HKFRS 2 has had no effect on these financial statements.

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

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

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

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

Notes to Financial Statements (continued)

31 December 2005

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

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

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

Notes to Financial Statements (continued)

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 1# Presentation HK$'000	Effect of adopting HKAS 40* Surplus on revaluation of investment properties HK$'000	Total HK$'000
Assets			
Property, plant and equipment	(3,380)	–	(3,380)
Investment properties	3,380	–	3,380
			–
Liabilities/equity			
Investment properties revaluation reserve	–	(1,036)	(1,036)
Retained profits	–	1,036	1,036
			–

At 31 December 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 1# Presentation HK$'000	Effect of adopting HKFRS 3 Discontinuation of amortisation of goodwill HK$'000	Effect of adopting HKAS 40* Surplus on revaluation of investment properties HK$'000	Total HK$'000
Assets				
Property, plant and equipment	(3,380)	–	–	(3,380)
Investment properties	3,380	–	–	3,380
Goodwill	–	3,558	–	3,558
				3,558
Liabilities/equity				
Investment properties revaluation reserve	–	–	(1,036)	(1,036)
Retained profits	–	3,558	1,036	4,594
				3,558

Presentation taken effect retrospectively

* Adjustments taken effect prospectively from 1 January 2005

Notes to Financial Statements (continued)

31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on the balances of equity at 1 January 2005

At 1 January 2005 **Effect of new policies** **(Increase/(decrease))**	**Effect of adopting** **HKAS 40** **Surplus on revaluation of investment properties** *HK$'000*
Investment properties revaluation reserve	(1,036)
Retained profits	1,036
	–

(c) Effect on the consolidated income statement for the year ended 31 December 2005

At 31 December 2005 **Effect of new policies** **(Increase/(decrease))**	**Effect of adopting** **HKFRS 3** **Discontinuation of amoritsation of goodwill** *HK$'000*
Other operating expenses	(3,558)
Profit attributable to ordinary equity holders of the parent	3,558

The adoption of HKAS 40 does not have any effect on the consolidated income statement for the year ended 31 December 2005 as the fair value of the investment properties did not change during the year.

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition.

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

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

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

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

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

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

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

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

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

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

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

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

Related parties

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

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

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

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

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

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

Leasehold land and buildings	5%
Leasehold improvements	20%
Plant, machinery and moulds	10% – 33%
Furniture, fixtures and equipment	20% – 33%
Motor vehicles	20%

During the year ended 31 December 2005, the annual depreciation rates of leasehold land and buildings of the Group were revised form 2%-7% to 5%. In opinion of the directors, the useful lives of the leasehold land and buildings are more accurately reflected by the revised estimates. The change in accounting estimate has been applied prospectively and has no material impact on the current year's results.

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

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

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

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Construction in progress represents factory buildings, plant and machinery under construction and installation, which is stated at cost less any impairment losses and is not depreciated. Cost comprises direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

The Company intends to apply for an extension of the tenure from 15 years to 50 years for Dongguan Bright Yin Huey Lighting Co., Ltd., which is an indirect wholly-owned subsidiary of the Company established in the People's Republic of China. Such application can only be made during the six-month period prior to the expiry of the tenure, and the directors of the Company believe that such an extension will be granted upon application. Accordingly, the valuation of leasehold land and buildings of this subsidiary are depreciated on the straight-line basis to write off the valuation of the assets over their estimated useful lives of 20 years.

Investment properties

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

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

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

Research and development costs

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

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

Leases

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

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Investments and other financial assets

Applicable to the year ended 31 December 2004:

Short term investments

Short term investments in listed equity securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values of such securities are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Fair value

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

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (applicable to the year ended 31 December 2005) (continued)

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

Assets carried at amortised cost

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

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

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

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (applicable to the year ended 31 December 2005) (continued)

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

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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

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

Inventories

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

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

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

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

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Revenue recognition

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

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

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

(c) rental income, on a time proportion basis over the lease terms; and

(d) proceeds from the sale of investments, on the transaction dates when the relevant contract notes are exchanged.

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension schemes

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

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

Notes to Financial Statements (continued)

31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Notes to Financial Statements (continued)

31 December 2005

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK$25,686,000 (2004: HK$7,717,000). More details are given in note 16.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis by geographical segment. Since over 90% of the Group's revenue, results, assets and liabilities are derived from the design, manufacture and sale of lighting products, no separate analysis of financial information by business segment is presented in the financial statements.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets. The others segment includes general corporate income and expense items and unallocated items.

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

	Hong Kong and Mainland China		United States of America		Canada		Europe		Others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**41,516**	52,828	**658,607**	641,165	**31,456**	6,841	**11,231**	7,919	**31,763**	31,901	**774,573**	740,654
Other segment information:												
Segment assets	**536,119**	493,334	**5,751**	3,434	**28,010**	–	**–**	–	**28,820**	9,824	**598,700**	506,592
Capital expenditure	**64,979**	55,790	**–**	155	**757**	–	**–**	–	–	–	**65,736**	55,945

Notes to Financial Statements (continued)

31 December 2005

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue, other income and gains is as follows:

	2005	2004
	HK$'000	*HK$'000*
Revenue – sale of goods	**774,573**	740,654
Other income:		
Gross and net rental income from investment properties	**852**	827
Bank interest income	**620**	503
Others	**2,868**	2,520
	4,340	3,850
Gains:		
Foreign exchange differences, net	**–**	9
Gain on disposal of equity investments at fair value through profit or loss/short term listed investments	**773**	1,091
	773	1,100
Other income and gains	**5,113**	4,950

Notes to Financial Statements (continued)

31 December 2005

6. PROFIT BEFORE TAX

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

	Notes	**2005** **HK$'000**	2004 HK$'000
Cost of inventories sold		**563,353**	531,494
Depreciation	*14*	**25,137**	19,924
Minimum lease payments under operating leases:			
Land and buildings		**4,491**	2,096
Office equipment		**139**	–
Auditors' remuneration		**1,230**	950
Employee benefits expense (excluding directors' remuneration in note 8):			
Wages and salaries		**53,937**	48,668
Pension scheme contributions (defined contribution schemes)		**1,122**	932
		55,059	49,600
Other operating expenses:			
Amortisation of goodwill	*16*	**–**	4,122
Impairment of goodwill	*16*	**3,558**	6,065
Research and development costs		**7,126**	4,847
Provision for doubtful debts		**457**	2,500
Write-off of items of property, plant and equipment	*14*	**326**	5,911
Foreign exchange differences, net		**545**	(9)
Fair value loss on equity investments at fair value through profit or loss		**500**	–
Surplus on revaluation of leasehold land and buildings	*14*	**(256)**	(346)

Notes to Financial Statements (continued)

31 December 2005

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**77**	71
Interest on other loans (note 31)	**192**	–
	269	71

8. DIRECTORS' REMUNERATION

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fees:		
Executive directors	**700**	700
Non-executive director	**–**	12
Independent non-executive directors	**300**	177
	1,000	889
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**6,500**	9,900
Discretionary bonuses	**2,098**	2,645
	8,598	12,545
	9,598	13,434

Notes to Financial Statements (continued)

31 December 2005

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Mr. Leung Hok Lim	**100**	100
Mr. Chan Nien-Po	**100**	–
Mr. Hsiao Horng Ching	**100**	77
	300	177

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors and a non-executive director

	Fees	**Salaries allowances and benefits in kind**	**Discretionary bonuses**	**Total remuneration**
	HK$'000	*HK$000*	*HK$'000*	*HK$'000*
2005				
Executive directors:				
Mr. Hsu Chen Shen	**100**	**1,700**	**535**	**2,335**
Mr. Hsu Shiu Sheng	**100**	**1,200**	**370**	**1,670**
Mrs. Hsu Wei Jui Yun	**100**	**400**	**63**	**563**
Mr. Pak Ping Chun	**100**	**900**	**344**	**1,344**
Mr. Yang Hsien Lin	**100**	**900**	**433**	**1,433**
Mr. Hsu Chin Liang	**100**	**900**	**200**	**1,200**
Mr. Hsu Chiang Lung	**100**	**500**	**153**	**753**
	700	**6,500**	**2,098**	**9,298**
2004				
Executive directors:				
Mr. Hsu Chen Shen	100	2,380	680	3,160
Mr. Hsu Shiu Sheng	100	1,880	487	2,467
Mrs. Hsu Wei Jui Yun	100	400	107	607
Mr. Pak Ping Chun	100	900	424	1,424
Mr. Yang Hsien Lin	100	1,580	537	2,217
Mr. Hsu Chin Liang	100	1,580	245	1,925
Mr. Hsu Chiang Lung	100	1,180	165	1,445
	700	9,900	2,645	13,245
Non-executive director:				
Mr. Cheung Wai Hung	12	–	–	12
	712	9,900	2,645	13,257

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

Notes to Financial Statements (continued)

31 December 2005

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were all (2004: all) directors of the Company, details of whose remuneration are set out in note 8 above.

10. TAX

No provision for Hong Kong profits tax has been made since the Group did not have any assessable profits arising in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current tax – Hong Kong and Mainland China		
Charge for the year	**5,234**	4,575
Underprovision/(overprovision) in prior years	**438**	(3,656)
Current tax – Elsewhere		
Charge for the year	**135**	–
Total tax charge for the year	**5,807**	919

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

Group – 2005

	Hong Kong and Mainland China		North America		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax	58,772		(4,961)		53,811	
Tax at the statutory tax rate	19,394	33.0	(1,792)	36.1	17,602	32.7
Different tax rate for specific provinces/local authority and countries	(643)	(1.1)	69	(1.4)	(574)	(1.1)
Adjustments in respect of current tax of previous periods	438	0.8	–	–	438	0.8
Tax losses not recognised	3,630	6.2	2,157	(43.5)	5,787	10.8
Income not subject to tax	(18,104)	(30.8)	(305)	6.2	(18,409)	(34.2)
Expenses not deductible for tax	957	1.6	6	(0.1)	963	1.8
Tax charge at the Group's effective rate	5,672	9.7	135	(2.7)	5,807	10.8

Notes to Financial Statements (continued)

31 December 2005

10. TAX (continued)

Group – 2004

	Hong Kong and Mainland China		North America		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	63,389		(11,566)		51,823	
Tax at the statutory tax rate	20,918	33.0	(4,048)	35.0	16,870	32.6
Different tax rate for specific provinces/local authority and countries	(194)	(0.3)	–	–	(194)	(0.3)
Adjustments in respect of current tax of previous periods	(3,656)	(5.7)	–	–	(3,656)	(7.0)
Tax losses not recognised	5,714	9.0	4,048	(35.0)	9,762	18.8
Income not subject to tax	(23,169)	(36.5)	–	–	(23,169)	(44.7)
Expenses not deductible for tax	1,330	2.1	–	–	1,330	2.5
Tax losses utilised from previous periods	(24)	(0.1)	–	–	(24)	(0.1)
Tax charge at the Group's effective rate	919	1.5	–	–	919	1.8

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$47,189,000 (2004: HK$7,173,000) (note 26(b)).

12. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim – Nil (2004: HK3.5 cents) per ordinary share	**–**	17,168
Proposed final – HK4 cents (2004: HK2 cents) per ordinary share	**19,620**	9,810
	19,620	26,978

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to Financial Statements (continued)

31 December 2005

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amount is based on the net profit for the year of HK$48,004,000 (2004: HK$51,208,000) attributable to ordinary equity holders of the parent, and 490,500,000 ordinary shares in issue during these years.

No diluted earnings per share amounts for the years ended 31 December 2005 and 2004 are presented as the Company does not have any dilutive potential ordinary shares during these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings# HK$'000	Leasehold improve-ments HK$'000	Plant, machinery and moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Cons-truction in progress HK$'000	Total HK$'000
At 31 December 2005							
At 31 December 2004 and 1 January 2005:							
Cost or valuation	142,380	21,989	65,628	12,667	11,041	36,626	290,331
Accumulated depreciation	–	(6,559)	(20,222)	(9,017)	(7,133)	–	(42,931)
Net carrying amount	142,380	15,430	45,406	3,650	3,908	36,626	247,400
At 1 January 2005, net of accumulated depreciation	142,380	15,430	45,406	3,650	3,908	36,626	247,400
Additions	13,487	3,999	17,416	7,105	1,229	22,500	65,736
Write-off	–	–	(72)	(23)	(16)	(215)	(326)
Surplus on revaluation	14,474	–	–	–	–	–	14,474
Acquisition of a subsidiary (note 27)	–	82	317	–	–	–	399
Depreciation provided during the year	(6,297)	(3,082)	(11,795)	(2,965)	(998)	–	(25,137)
Transfers	31,627	8	6,062	2,096	–	(39,793)	–
Exchange realignment	1,139	–	–	38	42	56	1,275
At 31 December 2005, net of accumulated depreciation	196,810	16,437	57,334	9,901	4,165	19,174	303,821
At 31 December 2005:							
Cost or valuation	196,810	26,144	89,432	21,873	11,782	19,174	365,215
Accumulated depreciation	–	(9,707)	(32,098)	(11,972)	(7,617)	–	(61,394)
Net carrying amount	196,810	16,437	57,334	9,901	4,165	19,174	303,821
Analysis of cost or valuation:							
At cost	–	16,437	57,334	9,901	4,165	19,174	107,011
At 2005 valuation	196,810	–	–	–	–	–	196,810
	196,810	16,437	57,334	9,901	4,165	19,174	303,821

Notes to Financial Statements (continued)

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Leasehold land and buildings# HK$'000	Leasehold improve-ments HK$'000	Plant, machinery and moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Cons-truction in progress HK$'000	Total HK$'000
At 31 December 2004							
At 1 January 2004:							
Cost or valuation	126,460	7,014	74,275	17,152	10,496	22,086	257,483
Accumulated depreciation	–	(4,517)	(21,769)	(13,984)	(7,347)	–	(47,617)
Net carrying amount	126,460	2,497	52,506	3,168	3,149	22,086	209,866
At 1 January 2004, net of accumulated depreciation	126,460	2,497	52,506	3,168	3,149	22,086	209,866
Additions	13,406	2,695	6,817	2,044	1,773	29,210	55,945
Write-off	–	(393)	(5,498)	(170)	150	–	(5,911)
Surplus on revaluation	7,424	–	–	–	–	–	7,424
Depreciation provided during the year	(5,225)	(2,130)	(8,728)	(2,677)	(1,164)	–	(19,924)
Transfers	315	12,761	309	1,285	–	(14,670)	–
At 31 December 2004, net of accumulated depreciation	142,380	15,430	45,406	3,650	3,908	36,626	247,400
At 31 December 2004:							
Cost or valuation	142,380	21,989	65,628	12,667	11,041	36,626	290,331
Accumulated depreciation	–	(6,559)	(20,222)	(9,017)	(7,133)	–	(42,931)
Net carrying amount	142,380	15,430	45,406	3,650	3,908	36,626	247,400
Analysis of cost or valuation:							
At cost	–	15,430	45,406	3,650	3,908	36,626	105,020
At 2004 valuation	142,380	–	–	–	–	–	142,380
	142,380	15,430	45,406	3,650	3,908	36,626	247,400

As the prepaid land premiums cannot be allocated reliably between the land and buildings elements, the entire land premium are included in the cost of land and buildings as finance leases in property, plant and equipment in accordance with HKAS 17.

Notes to Financial Statements (continued)

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land and buildings included above are held under the following lease terms:

	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
At valuation:			
Medium term leases	1,310	190,000	191,310
Long term lease	–	5,500	5,500
	1,310	195,500	196,810

The Group's leasehold land and buildings were revalued individually as at 31 December 2005 by RHL Appraisal Limited ("RHL"), an independent professionally qualified valuer, at an aggregate open market value of HK$196,810,000 based on their existing use. A revaluation surplus of HK$10,805,000 (2004: HK$4,575,000), net of deferred tax liabilities of HK$3,413,000 (2004: HK$2,503,000) (note 24), and a revaluation surplus of HK$256,000 (2004: HK$346,000) (note 6) resulting from the above valuations have been credited to the asset revaluation reserve and the consolidated income statement, respectively.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$151,565,000 (2004: HK$114,059,000).

No leasehold land and buildings were pledged as at 31 December 2005. As at 31 December 2004, the Group's leasehold land and buildings with a net book value of approximately HK$34,000,000 were pledged to secure general banking facilities granted to the Group.

15. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Carrying amount at 1 January and 31 December	**3,380**	3,380

The Group's investment properties are held under medium term leases and were revalued as at 31 December 2005 by RHL, on an open market, existing use basis. The investment properties are situated in Mainland China and leased to third parties under operating leases, further details of which are included in note 29(a) to the financial statements.

Further particulars of the Group's investment properties are included on page 84 of this annual report.

Notes to Financial Statements (continued)

31 December 2005

16. GOODWILL

	Group
	HK$'000
31 December 2005	
At 1 January 2005:	
Cost as previously reported	20,610
Effect of adopting HKFRS 3 *(note 2.2(e))*	(7,428)
Cost as restated	13,182
Accumulated amortisation and impairment as previously reported	(13,493)
Effect of adopting HKFRS 3 *(note 2.2(e))*	7,428
Accumulated amortisation and impairment as restated	(6,065)
Net carrying amount	7,117
Cost at 1 January 2005, net of accumulated impairment	7,117
Acquisition of a subsidiary *(note 27)*	22,127
Impairment during the year *(note 6)*	(3,558)
Cost and carrying amount at 31 December 2005	25,686
At 31 December 2005	
Cost	35,309
Accumulated impairment	(9,623)
Net carrying amount	25,686

Notes to Financial Statements (continued)

31 December 2005

16. GOODWILL (continued)

	Group HK$'000
31 December 2004	
At 1 January 2004:	
Cost as previously reported	20,610
Accumulated amortisation and impairment	(3,306)
Net carrying amount	17,304
Cost at 1 January 2004, net of accumulated amortisation and impairment	17,304
Amortisation provided during the year *(note 6)*	(4,122)
Impairment during the year *(note 6)*	(6,065)
At 31 December 2004	7,117
At 31 December 2004	
Cost	20,610
Accumulated amortisation and impairment	(13,493)
Net carrying amount	7,117

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimate useful life of five years.

Impairment testing of goodwill

The recoverable amount has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projection is 11.5% (2004: 8.5%) and cash flows beyond five-year period are extrapolated using a growth rate of 2% (2004: 2%) which is similar to the long term average growth rate of the lighting industry.

Management determines the cash flow projections based on experience and their expectation for market development. The budgeted gross margins are expected to be consistent with the year under review as management do not foresee any further significant raw materials price inflation.

Notes to Financial Statements (continued)

31 December 2005

17. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**43,715**	43,715
Due from subsidiaries	**186,781**	199,087
	230,496	242,802

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Bright Group (BVI) Ltd.	British Virgin Islands ("BVI")/ Hong Kong	US$702 Ordinary	100	–	Investment holding
Full Scene Developments Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Whole Bright Industries (HK) Limited	Hong Kong	HK$1,000 Ordinary HK$100,000 Non-voting deferred	–	100	Investment and property holding
Whole Bright Industries Limited	BVI/Mainland China	US$1 Ordinary	–	100	Trading of lighting products
Dongguan Bright Yin Huey Lighting Co., Ltd.#	PRC/Mainland China	HK$10,000,000	–	100	Design, manufacture and sale of lighting products
Willy Garden Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding

Notes to Financial Statements (continued)

31 December 2005

17. INTERESTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Whole Bright Industries (Macao Commercial Offshore) Limited	Macau	MOP100,000	–	100	Trading of lighting products
Everprofit Enterprise Co., Ltd.	BVI/Hong Kong	HK$11,610,000 Ordinary	–	100	Investment holding
北京瑩輝照明科技有限公司#	PRC/Mainland China	US$2,000,000	–	100	Trading of lighting products
東莞嘉盛照明科技有限公司#	PRC/Mainland China	HK$71,000,000 (2004: HK$35,000,000)	–	100	Design, manufacture and sale of lighting products
Ticko Inc.	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Newgreat Asia Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Sinograce Holdings Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Oriental Bright Holdings Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
Perfect Rich Holdings Limited	BVI/Hong Kong	US$50,000 Ordinary	–	100	Investment holding
上海瑩輝照明科技有限公司#	PRC/Mainland China	US$12,000,000	–	100	Design, manufacture and sale of lighting products
上海瑩輝照明工程有限公司#	PRC/Mainland China	US$2,000,000	–	100	Trading of lighting products

Notes to Financial Statements (continued)

31 December 2005

17. INTERESTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
永瑩輝貿易(上海)有限公司#	PRC/Mainland China	US$2,500,000	–	100	Trading of lighting products
Bright Lighting Inc. (formerly known as Eliance Group, Inc.)	United States of America	US$722 Ordinary	–	100	Design and sale of lighting products
Eliance Group. Inc.	United States of America	US$1,000 Ordinary	–	100	Trading of lighting products
Bright and Best Co., Ltd	BVI/Mainland China	US$1 Ordinary	–	100	Trading of lighting products
Bright China Investments Holdings Limited	BVI/Hong Kong	US$1 Ordinary	–	100	Investment holding
Profitmark Investments Limited	BVI/Hong Kong	US$1 Ordinary	–	100	Investment holding
R.A.M. Lighting Holdings Ltd	Canada	C$1,560,100 Common	–	100	Investment holding
R.A.M. Lighting Ltd.*	Canada	C$3 Common C$3,000,000 Preference	–	100	Design and distribution of lighting products

* During the year, the Group acquired R.A.M. Lighting Ltd. Further details of this acquisition are included in note 27 to the financial statements.

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

\# Registered as a wholly-owned foreign investment enterprise in the PRC.

Notes to Financial Statements (continued)

31 December 2005

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Listed equity investments, at fair value:		
Hong Kong	**2,888**	2,498
Elsewhere	**246**	209
	3,134	2,707

The above equity investments at 31 December 2005 and 2004 were classified as held for trading.

19. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**52,953**	40,091
Work in progress	**2,481**	2,791
Finished goods	**54,244**	24,866
	109,678	67,748

20. TRADE RECEIVABLES

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 1 month	**32,934**	29,375
1 to 3 months	**13,896**	15,341
4 to 6 months	**8,550**	7,572
7 to 12 months	**4,564**	5,660
Over 1 year	**7,492**	3,136
	67,436	61,084

Trading terms with customers are largely on credit, except for the new customers, where trade deposits, advances or payments in advance are normally required. Invoices are normally payable within 30 to 90 days of issuance by letters of credit or on an open account basis. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest bearing.

Notes to Financial Statements (continued)

31 December 2005

21. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**49,357**	73,971	**203**	134
Time deposits	**10,607**	17,877	**–**	–
	59,964	91,848	**203**	134
Less: Time deposits pledged for general banking facilities granted to certain subsidiaries	**(6,663)**	(8,219)	**–**	–
Cash and cash equivalents	**53,301**	83,629	**203**	134

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$19,814,000 (2004: HK$14,797,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

22. TRADE AND BILLS PAYABLES

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
1 to 3 months	**83,271**	68,473
4 to 6 months	**3,461**	2,795
7 to 12 months	**5,200**	1,006
Over 1 year	**3,929**	3,555
	95,861	75,829

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

Notes to Financial Statements (continued)

31 December 2005

23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals and other liabilities	**49,408**	36,589	**1,931**	1,543
Due to a related company	**468**	461	**–**	–
	49,876	37,050	**1,931**	1,543

The amount due to the related company, in which certain directors of the Company have beneficial interest, is unsecured, non-interest bearing and has no fixed terms of repayment. The amount represents reimbursement payable to the related company for expenses and purchases paid on behalf of the Group.

24. DEFERRED TAX

The movement in the Group's deferred tax liabilities during the year is as follows:

	Revaluation of investment properties	**Revaluation of leasehold land and buildings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	444	4,843	5,287
Deferred tax debited to equity during the year *(note 14)*	–	2,503	2,503
At 31 December 2004 and 1 January 2005	444	7,346	7,790
Deferred tax debited to equity during the year *(note 14)*	–	3,413	3,413
At 31 December 2005	444	10,759	11,203

The Group has tax losses arising in Hong Kong of HK$676,000 (2004: HK$806,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted.

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

Notes to Financial Statements (continued)

31 December 2005

25. SHARE CAPITAL AND SHARE OPTION SCHEME

Shares

	2005 *HK$'000*	2004 *HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
490,500,000 ordinary shares of HK$0.10 each	**49,050**	49,050

There were no movements in either the Company's authorised or issued share capital during the year.

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, employees, whether full-time or part-time, of the Group or any Invested Entity (as defined in the Scheme), suppliers of goods or services to the Group or any Invested Entity, customers of the Group or any Invested Entity, person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any member of the Group or any Invested Entity or holder of securities issued by any member of the Group or any Invested Entity. The Scheme became effective on 25 April 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date on which the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of, and the permission to deal in, the shares to be issued pursuant to the exercise of options under the Scheme.

The total number of shares of the Company available for issue at 31 December 2005 under the Scheme is 45,000,000 shares, representing approximately 9.17% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares issuable under share options to each eligible participant (including both exercised and outstanding options) under the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting of the Company.

Each grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors of the Company. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, resulting in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in a 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, is subject to shareholders' approval in advance in a general meeting of the Company.

Notes to Financial Statements (continued)

31 December 2005

25. SHARE CAPITAL AND SHARE OPTION SCHEME (continued)

Share option scheme (continued)

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such period shall not be more than 10 years from the date of the offer of the share options, subject to the provisions for early termination set out in the Scheme. There is no specific requirement that an option must be held for any minimum period before it can be exercised but the board of directors is empowered to impose at its discretion any such minimum period at the time of offering any particular option.

The exercise price of the share options is determined by the directors, but shall not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of the share options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share of the Company.

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

No share options have been granted under the Scheme from the date of its adoption to 31 December 2005.

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 37 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1999 over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Notes	**Share premium account** *HK$'000*	**Contributed surplus** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2004		54,252	43,515	114,788	212,555
Net profit for the year	*11*	–	–	7,173	7,173
Interim 2004 dividend	*12*	–	–	(17,168)	(17,168)
Proposed final 2004 dividend	*12*	–	–	(9,810)	(9,810)
At 31 December 2004 and 1 January 2005		54,252	43,515	94,983	192,750
Net profit for the year	*11*	–	–	47,189	47,189
Proposed final 2005 dividend	*12*	–	–	(19,620)	(19,620)
At 31 December 2005		54,252	43,515	122,552	220,319

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1999, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of its contributed surplus in certain circumstances.

Notes to Financial Statements (continued)

31 December 2005

27. BUSINESS COMBINATION

On 31 January 2005, the Group acquired a 100% interest in R.A.M. Lighting Ltd. ("R.A.M."), which is engaged in the design and distribution of decorative residential lighting products, from an independent third party for a cash consideration of HK$28,415,000.

The fair value of the identifiable assets and liabilities of R.A.M. as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** ***HK$'000***	**Carrying amount** *HK$'000*
Net assets acquired:			
Property, plant and equipment	*14*	**399**	399
Cash and cash equivalents		**777**	777
Inventories		**5,986**	5,986
Trade receivables		**5,899**	5,899
Prepayments, deposits and other receivables		**1,829**	1,829
Other payables and accruals		**(8,602)**	(8,602)
		6,288	6,288
Goodwill on acquisition	*16*	**22,127**	
		28,415	
Satisfied by:			
Cash consideration paid during the year		**25,611**	
Cash consideration payable		**2,804**	
		28,415	

An analysis of net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	HK$'000
Cash consideration	(25,611)
Cash and cash equivalents acquired	777
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary	(24,834)

Since its acquisition, R.A.M. contributed HK$42,282,000 to the Group's turnover and HK$1,074,000 to the consolidated net profit for the year ended 31 December 2005.

Included in the goodwill of HK$22,127,000 recognised above are brandname and distribution network, which are not recognised separately. As the value of these two items cannot be measured reliably, therefore it does not meet the criteria for recognition as an intangible asset under HKAS 38.

Notes to Financial Statements (continued)

31 December 2005

28. CONTINGENT LIABILITIES

At the balance sheet date, the Group had no significant contingent liabilities (2004: Nil).

At the balance sheet date, the Company executed corporate guarantees for the general banking facilities of approximately HK$30 million (2004: HK$30 million) granted to certain subsidiaries of the Company. The banking facilities had not been utilised as at the balance sheet date (2004: Nil).

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**332**	482
In the second to fifth years, inclusive	**24**	326
	356	808

(b) As lessee

The Group leases certain of its office equipment, office premises, staff quarters and warehouses under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**3,571**	623
In the second to fifth years, inclusive	**4,284**	883
	7,855	1,506

Notes to Financial Statements (continued)

31 December 2005

30. COMMITMENTS

At the balance sheet date, in addition to the operating lease commitments detailed in note 29(b) above, the Group had the following capital commitments:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Purchase of land	**–**	9,956
Purchase of equipment	**71**	1,098
Construction of a factory	**2,412**	14,368
	2,483	25,422

At the balance sheet date, the Company had no significant commitments (2004: Nil).

31. RELATED PARTY TRANSACTIONS

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

(a) The Group paid hotel room charges and food and beverage charges to a related company, which is beneficially owned by certain directors of the Company, for an aggregate amount of approximately HK$1,062,000 (2004: HK$1,829,000) for the provision of services to the Group's business partners and business associates during their visits to the Group's factory in the PRC. In the opinion of the directors, these transactions represented the acquisition of consumer goods and services in the ordinary and normal course of business of the Group on terms similar to those offered by such related company to independent third parties.

(b) During the year, Mr. Hsu Shui Sheng, director of the Company, had provided the Group with a loan of HK$10,000,000 (2004: Nil). The loan was repaid during the year with a total interest expense of HK$192,000 (note 7), charged at 5.52% per annum.

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

	2005	2004
	HK$'000	*HK$'000*
Short-term employee benefits	**9,598**	13,434

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

Notes to Financial Statements (continued)

31 December 2005

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The majority of the Group's trade receivables and trade payables are denominated in the US dollar. Due to the fact that the Hong Kong dollar is pegged to the US dollar, the Group's exposure to foreign currency risk is low. During the year under review, the Group did not issue any financial instruments for hedging purposes.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the instrument.

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

Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from the realisation of its assets if required.

33. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2006.