Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

1. BASIS OF PRESENTATION

The Company was incorporated on 26th January, 2005 as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") with effect from 14th July, 2005. The Company's parent and ultimate holding company is Pro Partner Developments Limited (incorporated in the British Virgin Islands). The addresses of the registered office and the principal place of business of the Company are disclosed in the Corporate Information to the annual report.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on SEHK, the Company issued shares in exchange for the entire issued share capital of Shinhint Industries Limited and thereby became the holding company of the Group on 11th May, 2005. Details of the Group Reorganisation are set out in the prospectus dated 30th June, 2005 issued by the Company.

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31st December, 2005 and 2004 have been prepared using the principles of merger accounting.

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

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 38.

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 (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 presentations of minority interests and share of tax of an associate 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:

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

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 and goodwill/negative goodwill existed on 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 prior to 1st January, 2001 was held in reserves, and 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. Goodwill previously recognised in reserves of HK$854,000 has been transferred to the Group's retained earnings on 1st January, 2005. 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$322,000 with a corresponding decrease in the cost of goodwill (see Note 15). The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. 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. Comparative figures for 2004 have not been restated (see Note 2A for the financial impact).

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st January, 2005. A corresponding adjustment to the Group's retained earnings of HK$1,906,000 has been made.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Investment Properties

In the current year, the Group has applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in the investment property revaluation reserve at 1st January, 2005 has been transferred to the Group's retained earnings (see Note 2A for the financial impact).

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. However, the effect of this change in accounting policy is insignificant to the Group's results for the current and prior years.

Share-based Payments

In the current year, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Group, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. The Group has granted share options to a director during the year and no share options were granted before 1st January, 2005.

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

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. However, this change in accounting policy has had no material impact to the Group's results for the current and prior years.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Decrease in negative goodwill released to income	**1,196**	–
Expenses in relation to share options granted to a director	**1,919**	–
Decrease in profit for the year	**3,115**	–

Analysis of decrease in profit for the year by line items presented according to their function:

	2005	2004
	HK$'000	*HK$'000*
Decrease in release of negative goodwill arising on acquisition of subsidiaries	**1,196**	–
Increase in administrative expenses	**1,919**	–
Decrease in profit for the year	**3,115**	–

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

	As at 31st December, 2004 (originally stated)	**Impact of HKAS 1 and 27**	**Impact of HKAS 40**	**Impact of HKFRS 3**	**As at 1st January, 2005** (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet item					
Negative goodwill	(1,906)	–	–	1,906	–
Total effect assets	(1,906)	–	–	1,906	–
Investment property revaluation reserve	219	–	(219)	–	–
Capital reserves	(854)	–	–	854	–
Retained profits	103,147	–	219	1,052	104,418
Minority interests	–	980	–	–	980
Total effects on equity	102,512	980	–	1,906	105,398
Minority interests	980	(980)	–	–	–

The adoption of the new HKFRSs has had no material effect to the Group's equity on 1st January, 2004.

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKAS 1 (Amendment)	Capital disclosures[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[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & 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 investment properties, which are measured at 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 include applicable disclosures required by the Rules Governing the Listing of Securities on SEHK and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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.

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 an 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.

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

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)*

Impairment test

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 periods.

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.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition, after reassessment, is recognised immediately in profit or loss.

As explained in Note 2 above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's retained earnings.

Revenue recognition

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate 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.

Club membership

Club membership with indefinite useful life are carried at cost less any identified impairment loss.

Investment in an associate

The results and assets and liabilities of associates are incorporated in these consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gain or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. 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 asset) is included in the income statement in the year in which the item is derecognised.

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, 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 the 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.

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 measured at fair value.

Financial assets

The Group's financial assets are mainly classified as loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

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, loans and receivables (including trade debtors, deposits, pledged bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by 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 Group 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 trade creditors, bills payable, amount due to a related company and bank borrowings are subsequently measured at amortised cost, using the effective interest method after initial recognition.

Equity instruments

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets 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. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Research and development expenditures

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over the useful life of the project. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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.

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 consolidated 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.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 that are measured in terms of historical cost in a foreign currency are not retranslated.

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.

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 Company (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 exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit costs

Payments to the retirement benefit schemes are charged as an expenses as they fall due.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade debtors, deposits, pledged bank deposits, bank balances and cash, trade creditors, bills payable, amount due to a related company and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies 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.

Market risk

(i) Interest rate risk

Interest rate risk reflects the risk that the Group might expose through the impact of rate changes on interest-bearing financial assets. Interest-bearing financial assets are mainly balances with banks which are all short term in nature. Interest-bearing financial liabilities are mainly bank loans which are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. The management will consider hedging significant interest rate exposure should the need arises.

(ii) Foreign currency risk

Certain trade debtors and trade creditors 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.

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 assets as stated in the consolidated balance sheet.

The Group's credit risk is primarily attributable to its trade debtors. The Group is exposed to concentration of credit risk as a substantial portion of its sales is generated from a limited number of customers. During the year, the top five customers of the Group accounted for about 97.5% of the Group's sales. The Group manages its credit risk by closely monitoring the granting of credit period. The Group also reviews the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is minimised.

The credit risk on liquid funds is limited because the counterparts are banks with high credit-ratings.

Liquidity risk

The Group is exposed to minimal liquidity risk as the Group closely monitor its cash flow position.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value

The carrying amount of the Group's financial instruments (including trade debtors, pledged bank deposits, bank balances and cash, trade creditors, bills payable, amount due to a related company) approximates to their fair value.

The carrying amount of bank borrowings, which are arranged at floating rates, approximates to its fair value.

5. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents the net amount received and receivable for goods sold by the Group to outside customers, less returns and allowances, during the year.

Business segments

The Group is currently organised into five revenue streams – sale of communication products, multi-media products, entertainment products, audio products and others. These revenue streams are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2005

	Communication products	**Multi-media products**	**Enter-tainment products**	**Audio products**	**Others**	**Con-solidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	162,247	440,769	289,150	46,548	77,484	1,016,198
RESULT						
Segment result	11,385	24,464	18,882	1,215	2,850	58,796
Unallocated other income						1,619
Unallocated corporate expenses						(2,031)
Finance costs						(2,014)
Share of results of an associate	–	–	–	–	(2,900)	(2,900)
Profit before taxation						53,470
Taxation						(8,029)
Profit for the year						45,441

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Balance sheet

	Communication products	Multi-media products	Enter-tainment products	Audio products	Others	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	93,352	253,605	154,665	26,782	30,414	558,818
Investment in an associate	–	–	–	–	5,874	5,874
Unallocated corporate assets						89,611
Consolidated total assets						654,303
LIABILITIES						
Segment liabilities	62,540	169,899	103,301	17,942	19,995	373,677
Unallocated corporate liabilities						55,817
Consolidated total liabilities						429,494

Other information

	Communication products	Multi-media products	Enter-tainment products	Audio products	Others	Un-allocated	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	2,634	7,279	4,009	795	447	4,388	19,552
Depreciation	1,889	5,221	2,938	570	396	2,360	13,374
Loss on disposal of property, plant and equipment	38	104	58	11	7	–	218
Loss on disposal of investment properties	–	–	–	–	–	74	74

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

2004

	Communication products	Multi-media products	Enter-tainment products	Audio products	Others	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	83,842	204,068	143,009	10,604	88,423	529,946
RESULT						
Segment result	3,866	18,059	9,707	706	14,775	47,113
Unallocated other income						3,214
Unallocated corporate expenses						(1,938)
Revaluation increase in respect of investment properties						1,463
Finance costs						(1,419)
Share of result of an associate	–	–	–	–	(38)	(38)
Profit before taxation						48,395
Taxation						(7,530)
Profit for the year						40,865

Balance sheet

	Communication products	Multi-media products	Enter-tainment products	Audio products	Others	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	35,641	86,750	61,672	4,508	38,302	226,873
Investment in an associate	–	–	–	–	8,609	8,609
Unallocated corporate assets						61,916
Consolidated total assets						297,398
LIABILITIES						
Segment liabilities	20,729	50,454	33,946	2,622	20,714	128,465
Unallocated corporate liabilities						60,256
Consolidated total liabilities						188,721

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Other information

	Communication products *HK$'000*	Multi-media products *HK$'000*	Enter-tainment products *HK$'000*	Audio products *HK$'000*	Others *HK$'000*	Un-allocated *HK$'000*	Con-solidated *HK$'000*
Capital expenditure	3,103	7,184	4,546	383	2,317	3,118	20,651
Depreciation	1,421	3,290	2,296	175	1,235	1,844	10,261
Loss on disposal of property, plant and equipment	76	177	111	9	56	–	429

Geographical segments

Segment Information regarding the Group's sales by geographical market, irrespective of the origin of the goods is presented below:

	Turnover by geographical market	
	2005	2004
	HK$'000	*HK$'000*
Asia	**164,892**	114,359
North America	**434,479**	267,525
Europe	**416,827**	148,062
	1,016,198	529,946

The following is an analysis of the carrying amount of segment assets and capital expenditure, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital expenditure	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Asia	**429,660**	206,801	**19,522**	20,651
North America	**108,662**	56,387	**–**	–
Europe	**115,981**	34,210	**–**	–
	654,303	297,398	**19,522**	20,651

6. OTHER INCOME

	2005	2004
	HK$'000	*HK$'000*
Bank interest income	935	54
Sundry income	1,023	3,406
	1,958	3,460

7. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Finance charges on obligations under finance leases	130	279
Interest on bank borrowings wholly repayable within five years	1,884	1,140
	2,014	1,419

8. PROFIT BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration		
Current year	**1,160**	897
(Over)underprovision in prior years	**(10)**	26
	1,150	923
Depreciation		
– owned assets	**12,875**	9,206
– assets held under finance leases	**499**	1,055
	13,374	10,261
Net exchange loss	**2,415**	154
Directors' emoluments (note 10)	**5,572**	2,127
Retirement benefit scheme contributions (note 35)	**1,525**	1,444
Other staff costs	**64,417**	44,805
Total staff costs	**71,514**	48,376
Gross rental income	**(12)**	(191)
Less: Outgoings	**–**	20
Net rental income	**(12)**	(171)
Minimum lease payments under operating leases in respect of rented premises and production plant	**8,099**	8,236
Research and development costs	**3,347**	13
Shares issue expenses	**5,570**	–
Impairment loss on goodwill (included in administrative expenses)	**70**	–
Loss on disposal of property, plant and equipment	**218**	429
Loss on disposal of investment properties	**74**	–
Shipping and handling expenses (included in selling and distribution costs)	**15,754**	10,090
Share of tax of an associate (included in share of results of an associate)	**–**	159
Reversal of allowance for doubtful debts	**–**	(25)

9. TAXATION

	2005	2004
	HK$'000	*HK$'000*
		(restated)
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**7,601**	4,478
The People's Republic of China ("PRC") Enterprise Income Tax	**–**	1,308
	7,601	5,786
(Over)underprovision in prior years		
Hong Kong	**(104)**	(107)
PRC Enterprise Income Tax	**(88)**	1,154
	(192)	1,047
Deferred tax (note 31)		
Current year	**620**	697
Tax attributable to the Company and its subsidiaries	**8,029**	7,530

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year.

Taxation arising in PRC is calculated at the rates prevailing in PRC.

Pursuant to the relevant laws and regulations in PRC, the subsidiaries established in PRC are entitled to full exemption from PRC Enterprise Income Tax and the local income tax for the first two years commencing from their first profit-making year of operation and thereafter will be entitled to full exemption from the local income tax and a 50% relief from PRC Enterprise Income Tax for the following three years ("Tax Holiday").

A subsidiary is engaged in typical processing arrangement with a PRC processing factory during the year. As 50% of its assessable profits were attributable to its manufacturing operation in PRC, the subsidiary filed Hong Kong Profits Tax at 50:50 basis. Accordingly, 50% of its assessable profits were offshore in nature and non-taxable.

9. TAXATION *(Continued)*

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

	2005 HK$'000	2004 HK$'000 (restated)
Profit before taxation	53,470	48,395
Tax at Hong Kong Profits Tax rate of 17.5%	9,357	8,469
Tax effect of share of results of an associate	508	7
Tax effect of expenses not deductible for tax purpose	1,798	25
Tax effect of income not taxable for tax purpose	(147)	(402)
(Over)underprovision in prior years	(192)	1,047
Utilisation of deferred tax assets previously not recognised	–	(203)
Tax effect of deferred tax assets not recognised	19	17
Tax effect of tax losses not recognised	82	–
Effect of tax relief granted to a subsidiary	(3,838)	(1,905)
Effect of different tax rates of subsidiaries operating in PRC	–	520
Others	442	(45)
Tax charge for the year	8,029	7,530

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

	Cheung Wah Keung HK$'000	Ip Wai Cheong, Ernest HK$'000	Wang Dong HK$'000	Feng Tian HK$'000	Goh Gen Cheung HK$'000	Lai Ming, Joseph HK$'000	Lam King Sun, Frankie HK$'000	Total HK$'000
2005								
Fees	–	–	–	–	123	123	123	369
Other emoluments								
Salaries and other benefits	1,625	1,145	197	264	–	–	–	3,231
Bonus	–	–	–	–	–	–	–	–
Retirement benefit scheme contributions	12	12	–	29	–	–	–	53
Share-based payments	–	1,919	–	–	–	–	–	1,919
	1,637	3,076	197	293	123	123	123	5,572

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

	Cheung Wah Keung HK$'000	Ip Wai Cheong, Ernest HK$'000	Wang Dong HK$'000	Feng Tian HK$'000	Goh Gen Cheung HK$'000	Lai Ming, Joseph HK$'000	Lam King Sun, Frankie HK$'000	Total HK$'000
2004								
Fees	–	–	–	–	–	–	–	–
Other emoluments								
Salaries and other benefits	1,506	88	102	265	–	–	–	1,961
Bonus	119	8	–	15	–	–	–	142
Retirement benefit scheme contributions	12	1	–	11	–	–	–	24
	1,637	97	102	291	–	–	–	2,127

(b) Employees

The five highest paid individuals of the Group for the year included two (2004: one) executive directors of the Company, details of which are set out above. The emoluments of the remaining three (2004: four) individuals were as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Salaries and other benefits	**2,231**	1,809
Bonus	**–**	106
Retirement benefits scheme contributions	**33**	48
	2,264	1,963

The emoluments of each of the three (2004: four) individuals in the Group during the year were below HK$1,000,000.

During the year, no emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

11. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Dividends declared by a subsidiary to its then shareholders prior to the Group Reorganisation	**–**	25,000
Interim dividend declared of HK2.5 cents per share	**7,500**	–
	7,500	25,000

The final dividend of HK 2.8 cents per share has been proposed by the directors and is subject to approval by the shareholders in general meeting for the year ended 31st December, 2005.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the parent)	**45,432**	40,315

	2005	2004
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**259,932**	225,000
Effect of dilutive potential ordinary shares:		
Share options	**2,083**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**262,015**	225,000

The calculation of basic earnings per share for 2004 is assuming that 225,000,000 shares of the Company had been in issue throughout 2004.

12. EARNINGS PER SHARE *(Continued)*

Impact of changes in accounting policies

Changes in Group's accounting policies during the year are described in details in note 2. To the extent that changes have had an impact on results reported for 2005 and 2004, they have had an impact on the amounts reported for earnings per share. The following table summarises that impact on both basic and diluted earnings per share:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005	2004	**2005**	2004
	HK dollar	*HK dollar*	***HK dollar***	*HK dollar*
Figures before changes in accounting policies	**0.18**	0.18	**0.18**	N/A
Effect on changes in accounting policies	**(0.01)**	–	**(0.01)**	N/A
Figures after changes in accounting policies	**0.17**	0.18	**0.17**	N/A

13. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2004	2,518
Revaluation increase	1,682
At 31st December, 2004	4,200
Disposals	(4,200)
At 31st December, 2005	**–**

The carrying amount of investment properties at 31st December, 2004 comprised properties held under medium-term lease situated in Hong Kong.

The investment properties of the Group were revalued at 31st December, 2004 on an open market value basis by Vigers Appraisal & Consulting Limited, an independent property valuer. The investment properties of the Group were disposed of during the year.

At 31st December, 2004, the investment properties had been pledged to secure banking facilities granted to the Group.

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Moulds	Furniture, fixtures and office equipment	Leasehold improvement	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1st January, 2004	55,129	2,503	11,110	6,512	2,675	77,929
Exchange realignment	27	–	18	–	12	57
Additions	9,239	449	3,117	7,601	245	20,651
Disposals	(2,680)	(2,439)	(1,098)	(1,372)	(219)	(7,808)
At 31st December, 2004	61,715	513	13,147	12,741	2,713	90,829
Additions	12,300	–	4,388	2,864	–	19,552
Disposals	(392)	–	(93)	–	–	(485)
At 31st December, 2005	**73,623**	**513**	**17,442**	**15,605**	**2,713**	**109,896**
DEPRECIATION						
At 1st January, 2004	21,696	2,474	6,445	2,562	1,433	34,610
Exchange realignment	15	–	10	–	9	34
Provided for the year	6,498	84	1,910	1,409	360	10,261
Eliminated on disposals	(1,185)	(2,439)	(1,033)	(552)	–	(5,209)
At 31st December, 2004	27,024	119	7,332	3,419	1,802	39,696
Provided for the year	7,636	157	2,707	2,650	224	13,374
Eliminated on disposals	(184)	–	(75)	–	–	(259)
At 31st December, 2005	**34,476**	**276**	**9,964**	**6,069**	**2,026**	**52,811**
CARRYING VALUES						
At 31st December, 2005	**39,147**	**237**	**7,478**	**9,536**	**687**	**57,085**
At 31st December, 2004	34,691	394	5,815	9,322	911	51,133

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

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

Plant and machinery	10% – 20%
Moulds	$33^{1}/_{3}$%
Furniture, fixtures and office equipment	20% – 25%
Leasehold improvements	20%
Motor vehicles	20% – 25%

The carrying value of plant and machinery of HK$39,488,000 (2004: HK$34,691,000) includes an amount of HK$3,490,000 (2004: HK$7,916,000) in respect of assets held under finance leases.

15. GOODWILL

	HK$'000
COST	
At 1st January, 2004 and 1st January, 2005	392
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 2)*	(322)
At 31st December, 2005	**70**
AMORTISATION	
At 1st January, 2004	191
Provided for the year	131
At 1st January, 2005	322
Elimination of accumulated amortisation upon the application of HKFRS 3	(322)
At 31st December, 2005	**–**
IMPAIRMENT	
At 1st January, 2004 and 1st January, 2005	–
Impairment loss recognised for the year	70
At 31st December, 2005	**70**
CARRYING VALUES	
At 31st December, 2005	**–**
At 31st December, 2004	70

Until 31st December, 2004, goodwill had been amortised over its estimated useful life of three years.

16. NEGATIVE GOODWILL

	HK$'000
GROSS AMOUNT	
At 1st January, 2004 and 31st December, 2004	3,588
RELEASED TO INCOME	
At 1st January, 2004	(486)
Released in the year	(1,196)
At 31st December, 2004	1,906
Derecognised upon the application of HKFRS 3	(1,906)
At 1st January, 2005	–

As explained in note 2, all negative goodwill arising on acquisition prior to 1st January, 2005 was derecognised as a result of the application of HKFRS 3.

Until 31st December, 2004, negative goodwill was released to income on a straight-line basis of three years.

17. IMPAIRMENT ON GOODWILL

During the year ended 31st December, 2005, the Group recognised an impairment loss of HK$70,000 in relation to goodwill arising on acquisition of Tai Sing Industrial Company Limited due to the uncertainty about the market conditions.

The recoverable amount of the goodwill has been determined on the basis of value in use calculation and are based on certain key assumptions. The value in use calculation uses cash flow projections based on latest financial budgets approved by the Company's management at a discount rate of 10%.

18. INVESTMENT IN AN ASSOCIATE

	2005 HK$'000	2004 HK$'000
Cost of investment in an unlisted associate	**3,860**	3,860
Share of post-acquisition profits and reserves	**2,014**	4,749
	5,874	8,609

Details of the associate of the Group as at 31st December, 2005 are as follows:

Name of associate	Form of business structure	Place of registration	Proportion of registered capital held indirectly by the Company	Principal activities
Guangzhou Prosonic-Guoguang Speaker System Co. Ltd. ("GZ Prosonic") 廣州普笙音箱廠有限公司	Sino-foreign equity joint venture	PRC	20%	Manufacture of wooden speakers box, home theatre and audio related products

The summarised financial information in respect of the Group's associate which is accounted for using the equity method is set out below:

	2005 HK$'000	2004 HK$'000
Total assets	**59,827**	90,996
Total liabilities	**(30,459)**	(47,953)
Net assets	**29,368**	43,043
Group's share of net assets of an associate	**5,874**	8,609
Turnover	**150,464**	235,834
Loss for the year	**(14,503)**	(190)
Group's share of results of an associate for the year	**(2,900)**	(38)

19. CLUB MEMBERSHIP

The club membership represents entrance fees paid to golf clubs held on a long-term basis. The directors of the Company are of the opinion that the underlying values of the club membership are at least equal to their costs.

20. INVENTORIES

	2005	2004
	HK$'000	*HK$'000*
At costs:		
Raw materials	**100,756**	26,597
Work in progress	**38,632**	1,722
Finished goods	**34,104**	16,854
	173,492	45,173

21. TRADE DEBTORS, DEPOSITS AND PREPAYMENTS

The Group normally allows an average credit period of 30 days to 75 days (2004: 30 days to 90 days) to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with Group.

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

	2005	2004
	HK$'000	*HK$'000*
0 to 30 days	**178,353**	55,093
31 to 60 days	**104,817**	47,181
61 to 90 days	**23,275**	13,587
91 to 120 days	**1,961**	2,016
Over 120 days	**5,458**	10,163
	313,864	128,040
Deposits and prepayments	**21,397**	8,292
	335,261	136,332

22. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company, 廣州慧得電子有限公司, was unsecured, interest free and was fully settled during the year.

90% equity interest of 廣州慧得電子有限公司 are held by GZ Prosonic, an associate of the Group.

23. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$6,761,000 (2004: HK$1,752,000) have been pledged to secure short-term bank borrowings and are therefore classified as current assets. The remaining deposits amounting to HK$3,116,000 (2004: HK$301,000) have been pledged to secure long-term borrowings and therefore classified as non-current assets.

The deposits carrying fixed interest rate ranging from 1.1% to 1.8% (2004: 0.04% to 0.5%). The pledged bank deposits will be released upon settlement of relevant bank borrowings. The fair value of bank deposits at 31st December, 2005 approximates to the corresponding carrying amount.

24. BANK BALANCES AND CASH

Bank balances and cash comprise certain short-term bank deposits at prevailing market interest rates and certain short-term bank deposits carried fixed interest rates ranging from 2.1% to 4.3% (2004: 0.5% to 1.1%).

25. TRADE CREDITORS AND ACCRUED CHARGES/BILLS PAYABLE

The following is an aged analysis of the trade creditors at the respective balance sheet dates:

	2005	2004
	HK$'000	*HK$'000*
0 to 30 days	**121,523**	33,963
31 to 60 days	**89,356**	25,576
61 to 90 days	**53,316**	13,068
91 to 120 days	**38,733**	18,974
Over 120 days	**26,380**	10,807
	329,308	102,388
Accrued charges	**24,954**	16,734
	354,262	119,122

At the balance sheet date, bills payable, with maturity date of 60 days, aged within 31 to 60 days (2004: 31 to 60 days).

26. AMOUNT DUE TO A RELATED COMPANY

The amount is owed to Dongguan Guanman Acoustic Co. Ltd., a company in which Mr. Ip Wai Cheong, Ernest, a director and shareholder of the Company, has beneficial interest. The amount is unsecured, interest free and repayable within one year.

The following is an aged analysis of the amount due to a related company at the respective balance sheet dates:

	2005	2004
	HK$'000	*HK$'000*
0 to 30 days	**10,231**	–
31 to 60 days	**5,948**	–
	16,179	–

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		**Present value of minimum lease payments**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases				
Within one year	**1,388**	2,648	**1,345**	2,537
In more than one year but not more than two years	**109**	1,363	**108**	1,339
In more than two years but not more than three years	**–**	111	**–**	109
	1,497	4,122	**1,453**	3,985
Less: future finance charges	**(44)**	(137)	**–**	–
Present value of lease obligations	**1,453**	3,985	**1,453**	3,985
Less: amount due for settlement within one year shown under current liabilities			**(1,345)**	(2,537)
Amount due for settlement after one year			**108**	1,448

The Group has leased certain of its plant and machinery under finance leases. The average lease term is 3 years (2004: 3 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 1.9% to 4.9% (2004: 2.0% to 5.0%).

27. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

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

The fair value of the Group's finance lease obligations, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date approximates to their carrying amount.

28. BANK BORROWINGS

	2005	2004
	HK$'000	*HK$'000*
Bank loans	**45,957**	31,205
Analysed as:		
Secured	**36,957**	21,687
Unsecured	**9,000**	9,518
	45,957	31,205

	2005	2004
	HK$'000	*HK$'000*
Carrying amount repayable:		
On demand or within one year	**41,503**	23,516
More than one year, but not exceeding two years	**4,454**	2,710
More than two years, but not exceeding five years	**–**	4,979
	45,957	31,205
Less: Amount due within one year shown under current liabilities	**(41,503)**	(23,516)
Amount due after one year	**4,454**	7,689

Bank borrowings comprise:

	Effective	**Carrying amount**	
	interest rate	**2005**	2004
		HK$'000	*HK$'000*
Floating-rate borrowings:			
Secured HKD bank loan at HIBOR + 1.925%	7.675%	**19,600**	–
Secured HKD bank loan at cost of fund + 2%	6.32%	**10,468**	9,770
Secured HKD bank loan at Prime – 1%	6.75%	**6,889**	10,417
Secured HKD bank loan at Prime + 0.75%	8.50%	**–**	1,500
Unsecured HKD bank loan at Prime – 2%	5.75%	**9,000**	9,518
		45,957	31,205

29. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
On incorporation	38,000,000	380
Increase on 25th June, 2005	462,000,000	4,620
At 31st December, 2005	500,000,000	5,000
Issued and fully paid:		
Allotted and issued at nil paid on 7th February, 2005	1	–
Issue of shares upon the Group Reorganisation	4,999,999	50
Allotted and issued at par on 17th May, 2005	49,995	–
Issue of shares at premium	867,968	9
Issue of shares on capitalisation of share premium account	219,082,037	2,191
Issue of shares upon the placing and public offer	75,000,000	750
At 31st December, 2005	300,000,000	3,000

The following changes in the share capital of the Company took place during the period from 26th January, 2005 (date of incorporation) to 31st December, 2005:

(a) The Company was incorporated on 26th January, 2005 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On 7th February, 2005, 1 share was allotted and issued at nil paid.

(b) As consideration for the acquisition of the entire issued share capital of Shinhint Industries Limited and its subsidiaries, the Company has issued an aggregate of 4,999,999 shares of HK$0.01 each, credited as fully paid under the Group Reorganisation which took place on 11th May, 2005. The difference between the nominal value of the entire issued share capital of Shinhint Industries Limited and the aggregate nominal value of the shares issued has been credited to special reserve.

(c) On 17th May, 2005, 49,995 shares of HK$0.01 each were allotted and issued to a director, Mr. Ip Wai Cheong, Ernest, at par.

(d) Pursuant to the subscription agreements and the supplemental agreements, 747,828 shares of HK$0.01 each and 120,140 shares of HK$0.01 each were allotted and issued on 17th May, 2005 and 25th June, 2005 respectively to certain investors, for a total consideration of HK$23,400,000.

29. SHARE CAPITAL *(Continued)*

(e) On 25th June, 2005, the authorised share capital of the Company was increased from HK$380,000 to HK$5,000,000 by the creation of an additional 462,000,000 new shares of HK$0.01 each. The new shares rank pari passu in all respects with the existing shares.

(f) 219,082,037 shares of HK$0.01 each in the Company were allotted and issued as fully paid to the shareholders of the Company whose names appeared on the register of members at the close of business on 25th June, 2005 in proportion to their respective shareholdings by the capitalisation of an amount of HK$2,191,000 from the amount standing to the credit of the share premium account of the Company.

(g) On 14th July, 2005, 75,000,000 new ordinary shares of the Company of HK$0.01 each were issued at HK$0.8 per share for cash through an initial public offering by way of placing and public offer.

The share capital at 1st January, 2004 and 31st December, 2004 shown in the consolidated balance sheet represented 5,000,000 shares of HK$1 each in the share capital of Shinhint Industries Limited prior to the Group Reorganisation.

30. SHARE OPTION SCHEME

(a) Pursuant to the service agreement between the Company and a director of the Company dated 11th May, 2005, an option to subscribe for 3,397,500 shares in the Company at an exercise price equals to par value of HK$0.01 per share (the “Pre-IPO Share Option”) was granted to the director. The Pre-IPO Share Option, which serves as an incentive for the director who has substantial management and manufacturing experience in the production of audio speaker system and car speaker system, shall be exercised during the period from 14th January, 2006 to 31st December, 2007 and shall not be transferable.

At 31st December, 2005, the number of shares to be issued upon subscription of the Pre-IPO Share Option which remained outstanding was 3,397,500, representing 1.13% of the shares of the Company in issue at that date.

Details of the share options granted under the Pre-IPO Share Option during the year to subscribe for the shares in the Company are as follows:

2005

Granted to	Date of grant	Vesting period	Exercisable period (both dates inclusive)	Exercise price *HK$*	Number of share options at 1st January, 2005	Granted during the year	Number of share options at 31st December, 2005
Director	11.5.2005	11.5.2005 –13.1.2006	14.1.2006–31.12.2007	0.01	–	3,397,500	3,397,500
Exercisable at the end of the year							–

The estimated fair value of the Pre-IPO Share Option at the date of grant is HK$2,025,000.

30. SHARE OPTION SCHEME *(Continued)*

The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2005
Weighted average share price	HK$0.70
Exercise price	HK$0.01
Expected volatility	26.1%
Expected life	0.5 year
Risk-free rate	3.8%
Expected dividend yield	10%

Expected volatility was determined with reference to the volatility of share price for other companies, with shares listed on the SEHK, in the same industry. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$1,919,000 for the year ended 31st December, 2005 in relation to share options granted by the Company.

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

(b) The Company's share option scheme adopted by the shareholders pursuant to a resolution passed on 25th June, 2005 (the "Scheme") is for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 13th July, 2015. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries, or any persons who have contributed or will contribute to the Group, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or any independent non-executive director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK$5,000,000 in the 12-month period up to the date of grant, then the grant must be approved in advance by the Company's shareholders.

30. SHARE OPTION SCHEME *(Continued)*

Options granted must be taken up within 28 days from the date of grant, upon payment of the consideration specified in the option agreement. An option may be exercised in accordance with the terms of the Scheme at any time during the effective period of the Scheme to be notified by the board of directors which shall not be later than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's share on the date of grant, the average closing price of the share on the SEHK for the five business days immediately preceding the date of grant, and the nominal value.

During the year ended 31st December, 2005, no options have been granted under the Scheme.

31. DEFERRED TAXATION

The followings are the major deferred tax liabilities and assets recognised and movements thereon for the year:

	Accelerated tax depreciation	Others	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2004	2,345	(60)	2,285
Exchange realignment	–	(1)	(1)
Charge to income for the year	636	61	697
At 31st December, 2004	2,981	–	2,981
Charge to income for the year	620	–	620
At 31st December, 2005	**3,601**	**–**	**3,601**

At the balance sheet date, the Group has unused tax losses of HK$466,000 (2004: nil) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unused tax losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK$209,000 (2004: HK$99,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

32. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2004, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$1,217,000.

33. OPERATING LEASE COMMITMENTS

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

	2005	2004
	HK$'000	*HK$'000*
Within one year	**94**	897
In the second to fifth years inclusive	**–**	141
	94	1,038

Operating lease payments represent rentals payable by the Group for certain of its office properties.

Leases are negotiated for an average term of one to two years and rentals are fixed throughout the lease term.

34. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements	**2,797**	700

35. EMPLOYEE RETIREMENT BENEFITS

Prior to 1st December, 2000, the Group operated a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance ("ORSO Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there were employees who left the ORSO Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effective from 1st December, 2000, the Group joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The obligation of the Group with respect to MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contributions payable in future years.

Employees who were members of the ORSO Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

Employees of the subsidiaries in PRC are members of pension schemes operated by PRC local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes.

36. RELATED PARTY TRANSACTIONS

Apart from the current accounts with related companies as stated in notes 22 and 26 above, the Group entered into the following transactions with related companies during the year:

Name of related company	Nature of transactions	2005 HK$'000	2004 HK$'000
Dongguan Guanman Acoustic Co. Ltd.	Trade purchases	87,483	–
GZ Prosonic	Trade purchases	–	321
廣州慧得電子有限公司	Trade sales	–	4
Victory Stand Industries Limited ("Victory Stand") (Note)	Trade sales	–	35,759
	Trade purchases	–	2,595
	Subcontracting income received	–	1,191

Note: Mr. Cheung Wah Keung, the director of the Company, was also the director and shareholder of Victory Stand. On 30th December, 2004, Mr. Cheung Wah Keung resigned as the director of Victory Stand and disposed of all his equity interest in Victory Stand. Victory Stand is no longer a related company since 30th December, 2004.

Certain directors had provided unlimited personal guarantees to banks for banking facilities granted to the Group at nil consideration. These personal guarantees were released and replaced by the corporate guarantees provided by the Company after the listing of the shares of the Company on the SEHK.

Compensation of key management personnel

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

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	6,948	3,849
Bonus	–	297
Retirement benefit scheme contributions	132	76
Share-based payment	1,919	–
	8,999	4,222

37. SUMMARISED BALANCE SHEET OF THE COMPANY

	2005
	HK$'000
Investment in a subsidiary	–
Amounts due from subsidiaries	156,405
Dividend receivable	17,500
Bank balances and cash	20,599
Other current assets	238
Amounts due to subsidiaries	(250)
Other current liabilities	(464)
	194,028
Share capital	3,000
Reserves	191,028
	194,028

38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note 1)*	Principal activities
Shinhint Industries Limited	Incorporated	Hong Kong	HK$5,000,000	100%	Investment holding and trading of components of electronic appliances
Rich Forever Inc.	Incorporated	British Virgin Islands ("BVI")	US$1	100%	Investment holding
Superior Gain Corporation	Incorporated	BVI	US$1	100%	Investment holding
Hot Track Limited	Incorporated	BVI	US$1	100%	Investment holding
Tai Sing Industrial Company Limited	Incorporated	Hong Kong	US$1	100%	Manufacturing of moulds, headphones and speakers related components
A-Kei Cable Limited	Incorporated	Hong Kong	HK$10,000	100%	Manufacturing of cable products for electronic appliances

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note 1)*	Principal activities
Crown Million Industries (International) Limited	Incorporated	Hong Kong	HK$10,000	100%	Trading of home theatre and automobiles speakers system
Shinhint Electronics (Dongguan) Company Limited ("Shinhint DG") 成謙電子(東莞)有限公司	Wholly foreign-owned enterprise	PRC	HK$10,000,000 (paid up HK$1,500,000) (Note 2)	100%	Not yet commence business
Shinhint Industrial Holdings Limited ("Shinhint Industrial")	Incorporated	BVI	US$1	100%	Investment holding
Shinhint Technology Company Limited	Incorporated	Hong Kong	HK$10,000	100%	Net yet commence business

Notes:

1. Other than Shinhint Industrial, all other subsidiaries are indirectly held by the Company.

2. The amount of unpaid capital will be contributed before 8th May, 2006 in accordance with the articles of association of Shinhint DG.

None of the subsidiary has debt securities at the end of the year.