Notes to Financial Statements

Year ended 31st December 2005

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company is Unit 9, 32nd Floor, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company and its subsidiaries (the "Group").

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 15 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

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 (hereafter 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 the consolidated statement of changes in equity. The changes in presentation have 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 and/or prior accounting years are prepared and presented:

Basis of Preparation

The financial statements have been prepared under the historical cost basis except for leasehold land and buildings, which are measured at fair values.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1st January 2005.

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Owner-occupied leasehold interest in land

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to "owner-occupied leasehold interest in land", which are carried at cost and amortised over the lease term on a straight-line basis. The change in accounting policy is adopted retrospectively and reflected by way of prior period adjustment and restatement of comparative figures.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of Preparation *(Continued)*

Owner-occupied leasehold interest in land *(Continued)*

Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

HKFRS 2: Share-Based Payment ("HKFRS 2")

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 directors' and employees' share options of the Company 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.

HKAS 32 "Financial Instruments: Disclosure and Presentation"
HKAS 39 "Financial Instruments: Recognition and Measurement"

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 accounting 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 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

From 1st January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKAS 32 "Financial Instruments: Disclosure and Presentation"

HKAS 39 "Financial Instruments: Recognition and Measurement" *(Continued)*

Derecognition

Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfer of financial assets on or after 1st January 2005.

Basis of Consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements incorporate the financial statement of the Company and its subsidiaries. Inter-company transactions and balances between group companies are therefore eliminated on consolidation.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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

Whose necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting polices into line with those used by other members of the Group.

The Company's investments in subsidiaries are stated at cost less impairment loss, if any.

Impairment of Assets

Impairment tests on assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse income previously recognised directly in equity.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Weighted average cost is used to determine the cost of ordinarily interchangeable items.

Property, Plant and Equipment

The building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. Fair value is determined by the Directors based on independent valuations which are performed periodically. The Directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the income statement. Any subsequent increases are credited to the consolidated income statement up to the amount previously charged and thereafter to property revaluation reserve.

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Leasehold land and buildings	–	The shorter of the lease terms or 50 years
Leasehold improvements, furniture, office equipment and motor vehicles	–	20%
Plant and machinery	–	10%

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenances costs are charged to the income statement during the year in which they are incurred.

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

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the income statement in the period in which such expenses are incurred.

Upon disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to retained profits.

The gain or loss on disposal of property, plant and equipment other than leasehold building is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial Instruments

(i) Financial assets

Financial assets comprise trade receivables, prepayments, deposits and other receivables, and cash and cash equivalents.

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest rate method, less any identified impairment losses.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investment are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

(ii) Financial liabilities

Financial liabilities comprise trade payables, other payables and accruals, interest-bearing bank loan and obligation under finance lease.

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities was incurred. The Group's accounting policy for each category is as follows:

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

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

- Bank loans are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iii) Derecognition

The Group derecognise a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Owner-occupied leasehold interest in land

Interests in leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

Employee Benefits

(i) Retirement benefits scheme

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

The employees of the Group's subsidiaries operating in the People's Republic of China (the "PRC") are required to participate in a central pension scheme (the "Central Scheme") operated by the local municipal government in the PRC. The respective local municipal government in the PRC, undertakes to assume the retirement benefits obligations of all existing and future retired staff of these subsidiaries. The only obligation of these subsidiaries with respect to the Central Scheme is to meet the required contributions under the Central Scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the Central Scheme.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is with out realistic possibility of withdrawal.

(iii) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share Based Payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over as a straight-line basis over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

Revenue Recognition

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

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

Dividend income is recognised when the shareholder rights to receive dividend has been established.

Income Taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are nonassessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. 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. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign Currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

Borrowing costs

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

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 above on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	HK$'000
Recognition of share-based payments as expenses	**1,964**	–
Amortisation of owner-occupied leasehold interest in land	**284**	180
Reversal of revaluation surplus of owner-occupied leasehold interest in land	**–**	1,093
Decrease in profit for the year	**2,248**	1,273

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

	2005	2004
	HK$'000	HK$'000
Increase in staff costs	**1,964**	–
Amortisation of owner-occupied leasehold interest in land	**284**	180
Reversal of revaluation surplus of owner-occupied leasehold interest in land	**–**	1,093
Decrease in profit for the year	**2,248**	1,273

The cumulative effects of the application of the new HKFRSs on the balance sheet as at 31st December 2004 and 1st January 2005 are summarised as follows:

	As at 31/12/2004 (originally stated)	**Adjustment**	**As at 31/12/2004 (restated)**
	HK'$000	HK'000	HK$'000
		HKAS 17	
Property, plant and equipment	213,401	(23,792)	189,609
Owner-occupied leasehold interest in land	–	20,098	20,098
Total effects on assets and liabilities	213,401	(3,694)	209,707
Share capital	14,400	–	14,400
Share premium	32,715	–	32,715
Property revaluation reserve	2,546	(2,145)	401
Statutory reserve	2,368	–	2,368
Accumulated profits	256,201	(1,549)	254,652
Proposed final dividend	17,280	–	17,280
Total effects on equity	325,510	(3,694)	321,816

The Group has not early applied the new standards, interpretations and amendments that have been issued but are not yet effective as at 31st December 2005.

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year. All significant intra-group transactions have been eliminated on consolidation.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

(i) on a primary segment reporting basis, by geographical segment; and

(ii) on a secondary segment reporting basis, by business segment.

The principal activity of the Group is the manufacture and sale of electronic products, which is managed according to the geographical location of ultimate customers.

Each of the Group's geographical segments, based on the location of customers, represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments. The Group's geographical segments are as follows:

(a) Hong Kong;

(b) India;

(c) Elsewhere in Asia; and

(d) Africa, Western Europe, the Middle East, North and South America, and Russia.

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

5. SEGMENT INFORMATION

(a) Geographical segments based on the location of customers

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments.

For the year ended 31st December

	Hong Kong		India		Elsewhere in Asia		Africa, Western Europe, the Middle East, North and South America, and Russia		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
						(restated)				(restated)
Segment revenue:										
Sales to external customers	**12,186**	12,830	**120,399**	116,147	**149,794**	133,510	**233,498**	224,292	**515,877**	486,779
Segment results	**1,006**	2,397	**9,866**	19,166	**12,458**	23,556	**23,166**	42,893	**46,496**	88,012
Unallocated income									**2,298**	4,185
Unallocated expenses									**(2,761)**	(2,232)
Profit from operations									**46,033**	89,965
Finance costs									**(2,609)**	(567)
Profit before taxation									**43,424**	89,398
Income tax expenses									**(3,749)**	9,356
Profit attributable to shareholders									**39,675**	98,754
Other segment information:										
Depreciation and Amortisation	**442**	375	**4,368**	3,394	**5,437**	4,081	**8,471**	6,554	**18,718**	14,404
Unallocated depreciation	**–**	–	**–**	–	**–**	–	**–**	–	**56**	56
	442	375	**4,368**	3,394	**5,437**	4,081	**8,471**	6,554	**18,774**	14,460
Capital expenditure	**1,345**	1,947	**13,287**	17,625	**16,530**	20,260	**25,766**	34,036	**56,928**	73,868
Write-down of inventories to net revaluation value	**159**	–	**1,973**	–	**2,305**	–	**3,582**	–	**8,019**	–
Loss on disposal of property, plant and equipment	**31**	–	**384**	–	**449**	–	**697**	–	**1,561**	–
Deficit/(Surplus) on revaluation of leasehold land and buildings	**53**	(1)	**656**	(16)	**767**	(16)	**1,191**	(29)	**2,667**	(62)

5. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments based on the location of customers *(Continued)*

As at 31st December

	Hong Kong		India		Elsewhere in Asia		Africa, Western Europe, the Middle East, North and South America, and Russia		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
						(restated)				(restated)
Segment assets	**10,458**	8,792	**130,248**	101,443	**152,209**	100,776	**236,512**	189,298	**529,427**	400,309
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**70,592**	109,813
Total assets	**10,458**	8,792	**130,248**	101,443	**152,209**	100,776	**236,512**	189,298	**600,019**	510,122
Segment liabilities	**2,573**	2,843	**25,421**	25,732	**31,628**	29,579	**49,301**	49,692	**108,923**	107,846
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**133,154**	80,460
Total liabilities	**2,573**	2,843	**25,421**	25,732	**31,628**	29,579	**49,301**	49,692	**242,077**	188,306

(b) Business Segments

Over 90% of the Group's revenue and assets are attributable to the manufacture and sale of electronic products.

6. PROFIT FROM OPERATIONS

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

	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold	**419,545**	363,742
Depreciation of property, plant and equipment on		
– owned assets	**18,339**	14,057
– assets held under finance leases	**151**	223
Amortisation of owners-occupied leasehold interest in land	**284**	180
Operating lease expenses for leasehold land and buildings	**579**	620
Auditors' remuneration	**814**	358
Staff costs (excluding directors' remuneration – *note 7)*		
Wages and salaries	**107,578**	77,958
Retirement benefits scheme contributions	**3,758**	4,442
Share-based payments expenses	**1,964**	–
Write-down of inventories to net realisable value	**8,019**	–
Allowance/(write back) for bad and doubtful debts	**111**	(609)
Exchange gain, net	**(337)**	(381)
Loss on disposal of property, plant and equipment	**1,561**	–
Deficit/(Surplus) on revaluation of leasehold land and buildings	**2,667**	(62)
Interest income	**(882)**	(899)

7. DIRECTORS' REMUNERATION

	Group	
	2005 **HK$'000**	2004 HK$'000
Directors' fees	**30**	–
Other emoluments for executive directors		
– salaries and other benefits	**3,680**	3,547
– bonus	**–**	–
– retirement benefits scheme contributions	**60**	60
	3,770	3,607

7. DIRECTORS' REMUNERATION *(Continued)*

Details of directors' remuneration for the year ended 31st December 2005 are as follows:

	Fees	Salaries and other benefits	Bonus	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:					
Lam Ping Kei	–	780	–	12	792
Wong Choi Fung	–	650	–	12	662
Lam Chu Ying	–	300	–	12	312
Law Wai Fai	–	930	–	12	942
Yeung Kwong Lun	–	1,020	–	12	1,032
Independent Non-Executive directors:					
Kwan Kai Ming	16	–	–	–	16
Sun Tian Yan	6	–	–	–	6
Deng Xiao Jun	6	–	–	–	6
Qiu Ji Zhi	2	–	–	–	2
Total	30	3,680	–	60	3,770

Details of directors' remuneration for the year ended 31st December 2004 are as follows:

	Fees	Salaries and other benefits	Bonus	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:					
Lam Ping Kei	–	780	–	12	792
Wong Choi Fung	–	650	–	12	662
Lam Chu Ying	–	299	–	12	311
Law Wai Fai	–	810	–	12	822
Yeung Kwong Lun	–	1,008	–	12	1,020
Total	–	3,547	–	60	3,607

There were no fees and other emoluments payable to the independent non-executive directors in 2004.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 7 to the financial statements. Details of the remuneration of remaining one (2004: one) non-director, highest paid employee are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**497**	378
Retirement benefits scheme contributions	**12**	12
	509	390

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

	Number of non-director, highest paid employees	
	2005	2004
	HK$'000	HK$'000
Nil to HK$1,000,000	**1**	1

9. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on:		
Bank loans wholly repayable within 5 years	**2,583**	528
Obligation under finance lease	**26**	39
	2,609	567

10. INCOME TAX EXPENSES

	Group	
	2005	2004
	HK$'000	HK$'000
Current taxation:		
Hong Kong	**268**	221
Other jurisdictions	**3,465**	872
(Over)/under-provision in prior years		
Hong Kong	**(49)**	(179)
Other jurisdictions	**65**	(10,270)
	3,749	(9,356)

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Pursuant to the laws and regulations in the PRC, certain Group's PRC subsidiaries are entitled to exemption from PRC Foreign Enterprise Income Tax for two years commencing from their first profit-making year, followed by a 50% relief for the three years thereafter.

Under Decree-Law no. 58/99/M, a Macau company incorporated under that Law (called "58/99/M Company") is exempted from Macau complementary tax (Macau income tax) as long as the 58/99/M Company does not sell its products to a Macau resident company. Currently, Tak Shun (Lam's) Macao Commercial Offshore Limited is qualified as 58/99/M Companies.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2004: Nil).

10. INCOME TAX EXPENSES *(Continued)*

The tax expenses for the year reconciled to the profit per the consolidated income statement is as follows:

	2005 HK$'000	2004 HK$'000 (Restated)
Profit before taxation	**43,424**	89,398
Tax at domestic income tax rate	**7,599**	15,645
Tax effect of expenses that are not deductible in determining taxable profit	**4,188**	745
Tax effect of income that is not taxable in determining taxable profit	**(5,912)**	(495)
Tax effect of tax losses not recognised	**1,002**	1,041
Under/(over)-provision in prior years	**16**	(10,449)
Effect of tax exemption	**(3,013)**	(15,524)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(131)**	(319)
Tax expenses for the year	**3,749**	(9,356)

11. DIVIDEND

	2005 HK$'000	2004 HK$'000
Proposed final dividend – Nil (2004: HK1.2 cents per share)	**–**	17,280

The directors do not recommend a final dividend for the year ended 31st December 2005.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the parent for the year of HK$39,675,000 (2004 restated: HK$98,754,000) and the weighted average of 1,440,004,800 (2004: 1,440,004,800) ordinary shares in issue during the year.

Diluted earnings per share for the year ended 31st December 2005 and for the year ended 31st December 2004 have not been presented as the warrants and share options outstanding during the years had an anti-dilutive effect on the basic earnings per share for both years.

13. OWNER-OCCUPIED LEASEHOLD INTEREST IN LAND

The Group's owner-occupied leasehold interest in land comprise:

	2005 HK$'000	2004 HK$'000 (restated)
Medium-term leasehold land in PRC	**24,985**	20,098
Analysed for reporting purpose as:		
– current assets	**313**	180
– non-current assets	**24,672**	19,918
	24,985	20,098

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Medium term Leasehold land and buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1st January 2004 (as previously stated)	80,050	2,894	81,548	8,308	172,800
Transfer to owners-occupied leasehold interest in land	(5,962)	(2,886)	–	–	(8,848)
At 1st January 2004 (restated)	74,088	8	81,548	8,308	163,952
Additions	6,767	7,504	45,449	2,442	62,162
Transfer	2,170	(4,012)	1,842	–	–
Deficit on revaluation	(4,025)	–	–	–	(4,025)
At 31st December 2004	79,000	3,500	128,839	10,750	222,089
Additions	6,154	12,708	31,702	1,814	52,378
Transfer	1,116	(1,116)	–	–	–
Deficit on revaluation	(1,180)	–	–	–	(1,180)
Disposal	–	–	(2,380)	–	(2,380)
Exchange realignment	2,210	254	4,194	248	6,906
At 31st December 2005	**87,300**	**15,346**	**162,355**	**12,812**	**277,813**
Analysis of cost or valuation					
At cost	–	15,346	162,355	12,812	190,513
At valuation	87,300	–	–	–	87,300
	87,300	**15,346**	**162,355**	**12,812**	**277,813**

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

Group

	Medium term leasehold land and buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Depreciation					
At 1st January 2004 (as previously stated)	–	–	17,757	2,194	19,951
Transfer to owner-occupied leasehold interest in land	–	–	–	–	–
At 1st January 2004 (restated)	–	–	17,757	2,194	19,951
Provided for the year	1,751	–	10,548	1,981	14,280
Write back on revaluation	(1,751)	–	–	–	(1,751)
At 31st December 2004	–	–	28,305	4,175	32,480
Provided for the year	1,734	–	14,557	2,199	18,490
Write back on revaluation	(1,757)	–	–	–	(1,757)
Disposal	–	–	(797)	–	(797)
Exchange realignment	23	–	1,006	91	1,120
At 31st December 2005	**-**	**-**	**43,071**	**6,465**	**49,536**
Net book value					
At 31st December 2005	**87,300**	**15,346**	**119,284**	**6,347**	**228,277**
At 31st December 2004	79,000	3,500	100,534	6,575	189,609

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

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

	2005 HK$'000	2004 HK$'000 (restated)
Medium-term leases in Hong Kong	**4,500**	3,200
Medium-term leases in the PRC	**82,800**	75,800
	87,300	79,000

At 31st December 2005, the Group's leasehold land and buildings in Hong Kong were revalued on an open market value, existing use basis, by DTZ Debenham Tie Leung Limited ("DTZ"), an independent firm of professional valuers, at HK$4,500,000 (2004: HK$3,200,000). The resulting revaluation surplus of approximately HK$1,300,000 had been credited to the property revaluation reserve (2004: HK$51,000).

At 31st December 2005, the Group's leasehold land and buildings in the PRC except Hong Kong were revalued on a depreciated replacement costs basis by DTZ, at HK$82,800,000 (2004 restated: HK$75,800,000). The resulting revaluation surplus of approximately HK$240,000 (2004 restated: deficit of approximately HK$2,400,000) had been charged to the property revaluation reserve and revaluation deficit of approximately HK$2,700,000 had been charged to the income statement (2004 restated: HK$1,100,000).

Had the Group's leasehold land and buildings in Hong Kong and elsewhere in the PRC been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$4,500,000 (2004: restated HK$3,200,000) and HK$82,800,000 (2004: restated HK$79,000,000), respectively.

The net book value of the Group's motor vehicle held under a finance lease included in the total amount of leasehold improvements, furniture, office equipment and motor vehicles is nil as at 31st December 2005 (2004: HK$365,000).

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**81,159**	81,159

The balances due from subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and repayable on demand. The carrying amount of these amounts due from (to) subsidiaries approximate to their fair values.

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
E-Today Technology Limited ("E-Today")	British Virgin Islands	Ordinary US$600	100	–	Investment holding
Deji Electronic Co., Ltd. Putian County, Fujian ("Deji Electronic") *(Note 1)*	PRC	HK$10,200,000	–	100	Manufacture and sale of electronic products
Putian Dexing Electronic Co., Ltd. ("Putian Dexing") *(Note 2)*	PRC	HK$100,186,635	–	100	Manufacture and sale of electronic products
Putian Derong Electronic Co., Ltd. ("Putian Derong") *(Note 3)*	PRC	HK$60,000,000	–	100	Manufacture and sale of electronic products
Zhejiang Yiwu Dexing Electronic Co., Ltd. ("Zhejiang Yiwu") *(Note 4)*	PRC	US$500,000	–	100	Inactive
Putian Defeng Electronics Co., Ltd ("Putian Defeng") *(Note 5)*	PRC	US$1,552,614	–	100	Manufacture and sale of electronic products

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Dexin (Henan) Electronic Co., Ltd ("Dexin Henan") *(Note 6)*	PRC	HK$8,960,000	–	100	Manufacture and sale of electronic products
Tak Shun (Lam's) Company Limited ("Tak Shun Lam")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,000 *(Note 7)*	–	100	Investment holding and distribution of electronic products
Advance Display Technology Limited	Hong Kong	HK$10,000	–	100	Sales of Liquid Crystal Display products
Tak Shun (Lam's) Macao Commercial Offshore Limited	Macau	MOP500,000	–	100	Distribution of electronic products

Note 1: Deji Electronic is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 20 years commencing from its date of establishment on 27th April 1992. The registered and paid-up capital of Deji Electronic amounted to HK$10,200,000.

Note 2: Putian Dexing is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 50 years commencing from its date of establishment on 18th May 1998. The registered capital of Putian Dexing amounted to HK$206,480,000, of which HK$100,186,635 was paid up by the Group as at 31st December 2005.

Note 3: Putian Derong is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 50 years commencing from its date of establishment on 29th April 2001. The registered and paid-up capital of Putian Derong amounted to HK$60,000,000.

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Note 4: Zhejiang Yiwu is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 30 years commencing from its date of establishment on 28th November 2003. The registered capital of Zhejiang Yiwu amounted to US$6,600,000 (equivalent to HK$51,480,000) of which US$4,039,065 (equivalent to HK$31,505,000) was paid up by the Group as at 31st December 2005.

Note 5: Putian Defeng is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 50 years commencing from its date of establishment on 22nd March 2004. The registered capital of Putian Defeng amounted to US$10,000,000 (equivalent to HK$78,000,000) of which US$1,552,614 (equivalent to HK$12,110,000) was paid up by the Group as at 31st December 2005.

Note 6: Dexin Henan is a Sole Foreign Investment Enterprise established in the PRC for an operating period of 50 years commencing from its date of establishment on 17th February 2005. The registered capital of Dexin Henan amounted to HK$18,000,000 of which HK$8,960,000 was paid up by the Group as at 31st December 2005.

Note 7: The non-voting deferred shares carry no rights as to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus in a return of capital in a winding-up (other than the nominal amount paid up or credited as paid-up of the non-voting deferred shares, after a sum of HK$1,000,000,000 per ordinary share has been distributed to the holders of the ordinary shares of Tak Shun Lam in such winding-up).

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

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.

16. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**49,595**	37,780
Work in progress	**20,500**	10,676
Finished goods	**104,765**	29,046
	174,860	77,502

Included in above are work in progress of approximately HK$3,358,000 (2004: Nil) and finished goods of approximately HK$50,997,000 (2004: Nil) which are carried at net realisable value.

17. TRADE RECEIVABLES

	Group 2005 HK$'000	2004 HK$'000
Trade receivables	**92,163**	83,872
Less: Allowance for bad and doubtful debts	**(1,263)**	(1,152)
	90,900	82,720

The Group normally allows credit terms ranging from 30 to 90 days to its customers.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group 2005 HK$'000	2004 HK$'000
1 – 30 days	**45,457**	43,837
31 – 60 days	**25,944**	23,002
61 – 90 days	**13,726**	8,143
Over 90 days	**5,773**	7,738
	90,900	82,720

The fair value of the Group's trade receivables at 31st December 2005 approximated to the corresponding carrying amounts.

18. TRADE PAYABLES

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased is as follows:

	Group 2005 HK$'000	2004 HK$'000
1 – 30 days	**26,450**	29,211
31 – 60 days	**16,897**	15,933
61 – 90 days	**8,468**	8,961
91 – 180 days	**9,087**	9,126
Over 180 days	**6,355**	5,167
	67,257	68,398

The fair value of the Group's trade payables at 31st December 2005 approximated to the corresponding carrying amounts.

19. INTEREST-BEARING BANK LOANS

	Group	
	2005	2004
	HK$'000	HK$'000
Secured bank loans	**17,003**	–
Unsecured bank loans	**83,333**	50,000
	100,336	50,000

The above amounts bear interest at prevailing market rates and are repayable as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**50,336**	12,500
In the second year	**33,333**	16,667
In the third to fifth years inclusive	**16,667**	20,833
	100,336	50,000
Less: Amount due within one year shown under current liabilities	**(50,336)**	(12,500)
	50,000	37,500

All bank loans are variable-rate borrowings which carry interest ranging from 1.53% to 5.86% (2004: 1.23% to 2.22% per annum) of which HK$20,000,000 as at 31st December 2005 was hedged by using floating-to-fixed interest-rate swap. Such interest-rate swap has the economic effect of converting the bank loan from floating rate to fixed rate.

The unsecured interest-bearing bank loans were guaranteed by the Company and certain of its subsidiaries.

During the year, the Group obtained new loans in the amount of HK$67,003,000. The loans bear interest at market rates and will be repayable within carrying 3 years.

The directors consider that the carrying asset of bank borrowings is approximated the their fair value.

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	HK$'000
As at 31st December 2005	**17,003**
As at 31st December 2004	–
	17,003

20. PLEDGE OF ASSETS

At the balance sheet date, certain property, plant and equipment with net book value of approximately HK$42 million (2004: Nil) were pledged to secure the Group's banking facilities.

21. OBLIGATION UNDER FINANCE LEASE

The Group leases a motor vehicle for its general business proposes under finance lease. The average lease term is 4 years. Interest rates underlying all obligations under finance lease is fixed at respective contract dates at 3.7%. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
	2005	**2005**	2004	2004
	HK$'000	**HK$'000**	HK$'000	HK$'000
Amounts payable:				
Within one year	**–**	**–**	201	175
In the second year	**–**	**–**	–	–
	–	**–**	201	175
Future finance charges	**–**		(26)	
Present value of lease obligation	**–**		175	
Portion classified as current liabilities	**–**		(175)	
Non-current portion	**–**		–	

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

The directors consider that the carrying amount of the obligations under finance lease is approximated their fair value.

22. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to one or more of the following financial risks:

- Credit risk
- Currency risk
- Interest rate risk
- Liquidity risk
- Fair values of financial assets and financial liabilities

Policy for managing these risks is set by the directors of the Group. The policy for each of the above risks is described in more detail below.

(a) Credit Risks

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 reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and directors of the Company consider the credit risk for such is minimal.

(b) Currency Risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposit and trade receivables 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.

(c) Interest Rate Risk

The Group's interest-rate risk arises from long-term borrowings. The Group does not have policy to maintain a specific level of its borrowings in fixed rate instruments since the board accepts that this neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments. However, the Group makes use of interest rate swaps to achieve the interest rate profile that it considers an appropriate balance of exposure to these risks is achieved.

22. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(Continued)*

(d) Liquidity Risk

Internally generated cash flow and bank loans are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to fixed interests rate and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

(e) Fair Values of Financial Assets and Financial Liabilities

The fair values of financial assets and financial liabilities reported in the balance sheet of the Group and the Company approximate their carrying amounts.

23. DEFERRED TAXATION

The following are the major deferred tax liabilities/assets recognised by the Group and movements thereon during the year.

	Accelerated tax allowances HK$'000
At 1st January 2004	(348)
Movement for the year	(190)
At 31st December 2004 and 1st January 2005	**(538)**
Movement for the year	**79**
At 31st December 2005	**(459)**

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax liabilities/assets in respect of the year (2004: Nil).

24. SHARE CAPITAL

Shares

	Number of shares	**Share capital** HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1st January 2004, 31st December 2004 and 2005	4,000,000,000	40,000
Issued and fully paid:		
At 1st January 2004, 31st December 2004 and 2005	1,440,004,800	14,400

25. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Option 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 Option Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity providing research, development or other technological support to the Group, and any other person or entity determined by the directors as having contributed or may contribute to the development and growth of the Group. The Option Scheme became effective on 18th September 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31st December 2005, the number of shares issuable under the share options granted under the Option Scheme was approximately 39,300,000, which represented 2.7% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 21 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 determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options.

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

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

25. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Option Scheme during the year:

	Number of share options								
Name or category of participant	At 1st January 2005	Granted during the year	Exercised during the year	Cancelled During The year	Lapsed during the year	At 31st December 2005	Date of grant of share options[1]	Exercise period of share options	Exercise price of share options[2]
									HK$
Directors									
Law Wai Fai	14,000,000	–	–	–	14,000,000	–	28/11/2002	18/12/2002 to 17/12/2005	0.348
Lam Chu Ying	8,000,000	–	–	–	8,000,000	–	28/11/2002	18/12/2002 to 17/12/2005	0.348
Yeung Kwong Lun	4,000,000	–	–	–	4,000,000	–	28/11/2002	18/12/2002 to 17/12/2005	0.348
	26,000,000	–	–	–	26,000,000	–			
Other employees									
In aggregate	12,980,000	–	–	2,360,000	10,620,000	–	28/11/2002	18/12/2002 to 17/12/2005	0.348
	–	4,150,000[3]	–	220,000	–	3,930,000	3/1/2005	24/1/2005 to 25/1/2010	0.342
	–	6,225,000[3]	–	330,000	–	5,895,000	3/1/2005	24/1/2006 to 25/1/2010	0.342
	–	8,300,000[3]	–	440,000	–	7,860,000	3/1/2005	24/1/2007 to 25/1/2010	0.342
	–	10,375,000[3]	–	550,000	–	9,825,000	3/1/2005	24/1/2008 to 25/1/2010	0.342
	–	12,450,000[3]	–	660,000	–	11,790,000	3/1/2005	24/1/2009 to 25/1/2010	0.342
	38,980,000	41,500,000	–	4,560,000	36,620,000	39,300,000			

(1) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(2) The exercise price of the share option is subject to adjustment in the case of a capitalisation issue, rights issue, sub-division or consolidation of the Company's shares or reduction of the Company's share capital.

25. SHARE OPTION SCHEME *(Continued)*

(3) The closing market price of the Company's shares at the date of the grant of the share options as disclosed in the Stock Exchange daily quotation sheet on the trading day immediately prior to the date of the grant of the share options was HK$0.34.

During the year ended 31st December 2005, options were granted on 3rd January 2005. The estimated fair value of the options granted on those dates is HK$2,045,987.

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

	2005
Weighted average share price	$0.31
Exercise price	$0.342
Expected volatility	41.94%
Expected life	5 years
Risk-free rate	4%
Expected dividend yield	0%
Employee exit rate pre-vesting	10%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1 year. 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 behavioral considerations.

The Group recognised the total expense of HK$1,964,000 for the year ended 31st December 2005 (2004: Nil) in relation to share options granted by the Company.

At 31st December 2005, the Company had 39,300,000 share options outstanding under the Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 39,300,000 additional ordinary shares of HK$0.01 each of the Company and additional share capital of HK$393,000 and share premium of approximately HK$13,048,000 (before share issue expenses).

26. RESERVES

Company

	Share premium HK$'000 (Note)	Retained profits HK$'000	Total HK$'000
At 1st January 2004	113,665	1,167	114,832
Net profit for the year	–	40,515	40,515
Proposed final dividend	–	(17,280)	(17,280)
At 31st December 2004 and 1st January 2005	113,665	24,402	138,067
Net profit for the year	–	27,508	27,508
At 31st December 2005	**113,665**	**51,910**	**165,575**

Note:

The share premium of the Company represents: (i) the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium utilised as a result of the capitalisation issue and bonus issue of shares of the Company; and (iii) the premium arising from the new issue of shares of the Company.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

27. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

At 31st December 2005, the Company had provided corporate guarantees to the extent of HK$144.8 million (2004: HK$145.5 million) to banks for banking facilities granted to certain subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st December 2005 amounted to approximately HK$100.3 million (2004: HK$51.7 million).

28. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings ranged from one to two years.

At 31st December 2005, 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	**155**	391
In the second to fifth years, inclusive	**123**	264
	278	655

The Company did not have any operating lease arrangements as at 31st December 2005(2004: Nil).

29. COMMITMENTS

(a) The Group had the following commitments in respect of its property, plant and equipment as at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted, but not provided for:		
Leasehold land and buildings	**21,610**	20,670
Plant and machinery	**1,334**	11,839
	22,944	32,509

(b) At 31st December 2005, the Group had contracted commitments in respect of capital investments in the PRC subsidiaries amounting to approximately HK$206,658,000 (2004: HK$273,807,000). This amount included US$700,000 (equivalent to HK$5,460,000) paid by the Group for investment in Zhejiang Yiwu but the capital verification of which had not yet been completed at 31st December 2005. Details of which were disclosed in note 15 to the financial statements.

The Company did not have any significant commitment as at 31st December 2005 (2004: Nil).

30. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Impairment Loss on Loans and Receivables

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

Write-down of Inventories to Net Realisable Value

The management of the Group reviews an aging analysis at each balance sheet date, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision for obsolete items.

Allowance for bad and doubtful debts

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