Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company was 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 address of the registered office and principal place of business of the Company are disclosed in the corporate information on the annual report.

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

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 35.

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 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. 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 prior accounting years are prepared and presented:

Business combinations

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

Excess of the Group's interest in the net fair value of an 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. The effect from the adoption of HKFRS 3 for the current year is HK$28,000 and there is no effect for prior periods.

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 1 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 periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. For available-for-sale investments, the cumulative unrealised gains or losses previously reported in equity at 1 January 2005 continue to be held in equity. On subsequent derecognition or impairment of the investment, the unrealised gain or loss remaining in equity will be transferred to profit or loss.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

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

Financial Instruments (Continued)

Financial assets and financial liabilities other than debt and equity securities

From 1 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 SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. 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 (see Note 2 for the financial impact).

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

	2005	2004
	HK$'000	*HK$'000*
Recognition of discount on acquisition directly in profit	**28**	–
Decrease in amortisation of prepaid lease payments restated at cost	**52**	–
	80	–

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

Owner-occupied Leasehold Interest in Land (Continued)

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

	As at 31 December 2004 (originally stated)	Adjustments	As at 31 December 2004 (restated)	Adjustments	As at 1st January 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items					
Impact of HKAS 17:					
Property, plant and equipment	125,312	(14,520)	110,792	–	110,792
Prepaid lease payments	–	10,255	10,255	–	10,255
Deferred tax liabilities	(4,678)	1,152	(3,526)	–	(3,526)
Impact of HKAS 32 and HKAS 39:					
Investment in securities	6,144	–	6,144	(6,144)	–
Available-for-sale investments	–	–	–	6,144	6,144
Other net assets	109,042	–	109,042	–	109,042
Total effects on assets and liabilities	235,820	(3,113)	232,707	–	232,707
Property revaluation reserve	9,754	(3,113)	6,641	–	6,641
Other equities	226,066	–	226,066	–	226,066
Total effects on equity	235,820	(3,113)	232,707	–	232,707

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

	As originally stated	Adjustments	As restated
	HK$'000	*HK$'000*	*HK$'000*
Property revaluation reserve	11,700	(2,939)	8,761

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

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

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 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

3. CHANGES OF ACCOUNTING ESTIMATES

In previous years, plant and machinery was depreciated at 10% to 33.3% per annum. With effect from 1 January 2005, plant and machinery is to be depreciated at 10% per annum, which reflects the Group's previous experience of the useful lives of its assets. This change in depreciation rate has decreased the depreciation charge for the year by approximately HK$2,346,000.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis except for certain leasehold properties and available-for-sale investments, which are measured at revalued amounts at fair values, as explained in the accounting policies set out below.

The 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 The Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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 their respective dates of acquisition or up to the dates of disposal, as appropriate.

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

All significant intercompany transactions and balances within the Group have been 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.

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 1 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 is recognised immediately in profit or loss.

Revenue recognition

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

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

Service income is recognised when services are rendered.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

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

Property, plant and equipment

Property, plant and equipment other than leasehold land and buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Leasehold land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their residual value, using the straight line method, as follows:

Leasehold land and building	Over the shorter of the term of leases or 50 years
Plant and machinery	10 years
Other property, plant and equipment	3 to 5 years

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

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 assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net sale proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

4. 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 leasee. All other leases are classified as operating leases.

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 periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets comprise of available-for-sale financial assets and loans and receivable.

Loans and receivables

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

Available-for-sale financial assets

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

4. 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 definition of a financial liability and a 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 are set out below.

Financial liabilities

Financial liabilities including bank borrowings, creditors and accruals and obligation under a finance lease are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

Club debentures

Club debentures are stated at cost less any identified impairment loss.

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, unless the relevant asset is carried a revalued amount under another HKFRS, in which case the impairment loss is treated as revaluation decrease under that HKFRS.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (Continued)

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, unless the relevant asset is carried a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

Inventories

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

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group 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 translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

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

Retirement benefit costs

Payments to the defined contribution retirement benefits schemes are charged as an expense as they fall due.

5. KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as below.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm.

5. KEY SOURCES OF ESTIMATION AND UNCERTAINTY (Continued)

Estimated allowance of doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other debtors. Allowances are applied to trade and other debtors where events or change in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the future discounted cash flow of trade and other debtors is different from the carrying amount, such difference represents allowance for doubtful debts recognised as expense in the income statement.

Estimated allowance of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, loans receivables, bank balances, bank borrowings, trade debtors, trade creditors and obligations under a finance lease. 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.

Currency risk

The Group operates mainly in Hong Kong and the Mainland China. Most of the Group's assets and liabilities are denominated in Hong Kong dollars and Renminbi with some creditors denominated in Japanese Yen and US dollars. The management manages and monitors the currency risk exposure and would consider the use of forward contract to mitigate the risk.

Interest rate risk

The Group was exposed to interest rate risk through the impact of rate changes on loan receivables, bank borrowings and obligations under a finance lease. The management manages and monitors the interest rates exposures and would consider the use of interest rate swap to mitigate the risk. The interest rates and terms of loan receivables, obligations under a finance lease and bank borrowings were disclosed in notes 23, 25 and 26 respectively.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 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. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit ratings.

7. TURNOVER

Turnover represents the amounts received and receivable from the manufacture of abrasive products, polishing compounds and polishing wheels, trading of polishing materials and polishing equipment and provision of technical consultancy service, net of allowances and returns, during the year.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing	–	manufacture of abrasive products, polishing compounds and polishing wheels
Trading	–	trading of polishing materials and polishing equipment
Technical service	–	provision of technical consultancy service

Segment information about these businesses is presented below.

Income statement for the year ended 31 December 2005

	Manufacturing	**Trading**	**Technical service**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	98,666	85,689	7,609	191,964
Result				
Segment result	26	12	2,692	2,730
Other income				4,037
Reversal of revaluation decrease in leasehold land and buildings previously charged to the income statement				895
Finance costs				(750)
Profit before taxation				6,912
Taxation				(1,754)
Profit for the year				5,158

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Balance sheet at 31 December 2005

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	162,352	50,209	3,386	215,947
Unallocated corporate assets				48,084
Consolidated total assets				264,031
Liabilities				
Segment liabilities	5,276	4,463	573	10,312
Unallocated corporate liabilities				17,719
Consolidated total liabilities				28,031

Other information

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	8,155	3,568	317	12,040
Depreciation of property, plant and equipment	4,753	1,219	110	6,082
Allowance for doubtful debts	903	785	70	1,758
Allowance for obsolete inventories	546	–	–	546

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Income statement for the year ended 31 December 2004

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	91,997	67,074	4,569	163,640
Result				
Segment result	14,461	5,596	3,826	23,883
Other income				866
Reversal of revaluation decrease on leasehold land and buildings previously charged to the income statement				554
Finance costs				(896)
Profit before taxation				24,407
Taxation				(3,169)
Profit for the year				21,238

Balance sheet at 31 December 2004

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
Assets				
Segment assets	153,835	42,009	1,903	197,747
Unallocated corporate assets				60,477
Consolidated total assets				258,224
Liabilities				
Segment liabilities	4,834	3,316	226	8,376
Unallocated corporate liabilities				17,141
Consolidated total liabilities				25,517

Other information

	Manufacturing	Trading	Technical service	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	15,220	159	11	15,390
Depreciation of property, plant and equipment	5,457	1,397	95	6,949
Allowance for obsolete inventories	159	–	–	159

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The Group's operations are located in Hong Kong and Mainland China. The Group's trading divisions are mainly located in Hong Kong and Mainland China. Manufacturing and technical service are carried out in Mainland China.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of customers:

	Turnover	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong	**83,622**	96,923
Mainland China	**95,762**	58,874
Other Asian region	**8,383**	3,865
North America and Europe	**1,400**	1,490
Other countries	**2,797**	2,488
	191,964	163,640

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

	Carrying amount of segment assets		**Additions to property, plant and equipment**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**152,855**	134,904	**1,534**	371
Mainland China	**111,176**	123,320	**10,506**	15,019
	264,031	258,224	**12,040**	15,390

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

9. OTHER INCOME

	2005 HK$'000	2004 HK$'000
Other income comprises:		
Discount on acquisition of a subsidiary	28	–
Gain on derecognition of available-for-sale investments	250	–
Interest income from banks	322	76
Other interest income	364	67
Net foreign exchange gains	2,218	124
Dividend income from listed investments	144	61
Sundry income	711	538
	4,037	866

10. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Finance costs comprise:		
Interests on bank borrowings wholly repayable within five years	733	869
Finance lease charges	17	27
	750	896

11. DIRECTORS' EMOLUMENTS

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

Name of Director	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheng Kwok Woo	–	1,063	–	84	1,147
Cheng Kwong Cheong	–	1,063	–	84	1,147
Cheng Wai Ying	–	607	–	42	649
Chow Yin Kwang	–	739	–	33	772
Chan Yim Fan	–	358	–	16	374
Chung Kam Fai, Raymond	–	57	–	1	58
Zheng Jin Hong	50	–	–	–	50
Anthony Francis Martin Conway	120	–	–	–	120
Leung Yuen Wing	120	–	–	–	120
Lam Hon Ming, Edward	60	–	–	–	60
Total for the year 2005	350	3,887	–	260	4,497

Name of Director	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheng Kwok Woo	–	1,082	–	83	1,165
Cheng Kwong Cheong	–	1,071	–	83	1,154
Cheng Wai Ying	–	594	–	42	636
Chow Yin Kwang	–	760	–	32	792
Chan Yim Fan	–	350	–	16	366
Chung Kam Fai, Raymond	–	615	–	28	643
Charles Woo	–	–	–	–	–
Zheng Jin Hong	50	–	–	–	50
Anthony Francis Martin Conway	129	–	–	–	129
Li Kin, Kent	50	–	–	–	50
Leung Yuen Wing	30	–	–	–	30
Lam Hon Ming, Edward	15	–	–	–	15
Total for the year 2004	274	4,472	–	284	5,030

No directors waived any emoluments in the year ended 31 December 2004 and 2005.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2004: five) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining one highest paid individual in 2005 were as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	**401**	–
Retirement benefit scheme contributions	**18**	–
	419	–

13. TAXATION

	2005	2004
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong	**572**	2,613
Other regions in the PRC	**348**	–
Other jurisdictions	**60**	–
	980	2,613
Overprovision in prior year		
Hong Kong	**(70)**	(202)
Deferred taxation *(note 27)*		
Current year	**844**	758
	1,754	3,169

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

In accordance with the relevant tax laws and regulations of The People's Republic of China ("PRC"), the PRC subsidiary is exempted from Enterprise Income Tax ("EIT") for two years starting from its first profit making year after utilisation of carried forward tax losses and is eligible for a 50% relief on the EIT in the following three years. 2003 is the first profit making year.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

13. TAXATION (Continued)

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

	2005 HK$'000	2004 HK$'000
Profit before taxation	**6,912**	24,407
Tax at Hong Kong Profits Tax rate of 17.5%	**1,210**	4,271
Tax effect of expenses not deductible for tax purpose	**527**	23
Tax effect of income not taxable for tax purpose	**(134)**	(111)
Tax effect of tax loss not recognised	**155**	127
Utilisation of tax losses previously not recognised	**–**	(5)
Tax effect of income tax on concessionary rate granted to the PRC subsidiary	**(68)**	(904)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**116**	–
Overprovision in respect of prior year	**(70)**	(202)
Others	**18**	(30)
Tax charge for the year	**1,754**	3,169

The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

14. PROFIT FOR THE YEAR

	2005 HK$'000	2004 HK$'000
Profit for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	**6,082**	6,949
Release of prepaid lease payment	**238**	239
Staff costs, including directors' remuneration	**17,603**	19,062
Auditors' remuneration	**830**	824
Allowance for doubtful debts	**1,758**	–
Allowance for obsolete inventories	**546**	159
Loss on disposal of property, plant and equipment	**–**	8
Cost of inventories recognised as expenses	**151,113**	105,287

Contributions to retirement benefits schemes of HK$662,000 (2004: HK$715,000) are included in staff costs.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

15. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim dividend of HK0.17 cent (2004: HK0.3 cent) per ordinary share	**1,629**	2,880
Proposed final dividend of HK0.1 cent (2004: Nil) per ordinary share	**958**	–
	2,587	2,880

The proposed final dividend for the year is subject to the approval of the shareholders at the forthcoming annual general meeting. The final dividend shall be despatched on 28 June 2006 to the shareholders whose names register in the Company's register of members as at 29 May 2006.

16. EARNINGS PER SHARE

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

	2005	2004
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share	**5,112**	21,238

	Number of shares	
	2005	2004
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**958,000**	942,359

No diluted earnings per share was presented for both years as the Company has no potential dilutive ordinary shares during both years.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Plant and machinery *HK$'000*	Leasehold improvements, furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Yachts *HK$'000*	Total *HK$'000*
AT COST OR VALUATION						
At 1 January 2004						
– As originally stated	104,350	22,178	10,940	4,520	1,317	143,305
– Effect of the changes in accounting policies under HKAS 17	(14,520)	–	–	–	–	(14,520)
– As restated	89,830	22,178	10,940	4,520	1,317	128,785
Additions	2,821	12,180	389	–	–	15,390
Disposals	–	(15)	(76)	(54)	–	(145)
Decrease in revaluation	(4,331)	–	–	–	–	(4,331)
At 31 December 2004	88,320	34,343	11,253	4,466	1,317	139,699
Effect on exchange adjustments	1,773	382	57	23	–	2,235
Additions	–	11,265	488	287	–	12,040
Disposals	–	(244)	–	–	–	(244)
Decrease in revaluation	(1,613)	–	–	–	–	(1,613)
At 31 December 2005	**88,480**	**45,746**	**11,798**	**4,776**	**1,317**	**152,117**
Comprising:						
At cost	–	45,746	11,798	4,776	1,317	63,637
At valuation 2005	88,480	–	–	–	–	88,480
	88,480	45,746	11,798	4,776	1,317	152,117
ACCUMULATED DEPRECIATION AND AMORTISATION						
At 1 January 2004	–	10,678	8,223	3,854	1,317	24,072
Provided for the year	1,980	3,629	1,064	276	–	6,949
Eliminated on disposals	–	(8)	(77)	(49)	–	(134)
Eliminated on revaluation	(1,980)	–	–	–	–	(1,980)
At 31 December 2004	–	14,299	9,210	4,081	1,317	28,907
Effect on exchanges adjustments	203	180	50	22	–	455
Provided for the year	2,052	3,173	639	218	–	6,082
Eliminated on disposals	–	(244)	–	–	–	(244)
Eliminated on revaluation	(2,255)	–	–	–	–	(2,255)
At 31 December 2005	**–**	**17,408**	**9,899**	**4,321**	**1,317**	**32,945**
NET BOOK VALUES						
At 31 December 2005	**88,480**	**28,338**	**1,899**	**455**	**–**	**119,172**
At 31 December 2004	88,320	20,044	2,043	385	–	110,792

At 31 December 2005, leasehold land and buildings in Hong Kong of HK$14,740,000 (2004: HK$14,188,000) were held under medium term lease.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The leasehold land and buildings of the Group were revalued by Castores Magi (Hong Kong) Limited, an independent firm of registered professional surveyors, at 31 December 2005 by reference to market evidence of recent transactions for similar properties. The valuation conforms to International Valuation Standards. The revaluation gave rise to a net revaluation surplus of HK$642,000 (2004: deficit of HK$2,351,000) of which approximately HK$253,000 (2004: HK$2,905,000) has been debited to the property revaluation reserve and HK$895,000 (2004: HK$554,000) has been credited to the income statement.

If the leasehold land and buildings of the Group had not been revalued, they would have been included on a historical cost basis at the following amounts:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Cost	**94,493**	94,488
Accumulated depreciation and amortisation	**(14,764)**	(12,715)
Net book values	**79,729**	81,773

Motor vehicles include an amount of HK$199,000 (2004: HK$385,000) in respect of asset held under a finance lease.

At 31 December 2005, leasehold land and buildings with an aggregate carrying value of HK$83,996,000 (2004: HK$84,387,000) was pledged to banks to secure banking facilities granted to the Group.

18. PREPAID LEASE PAYMENTS

The leasehold land outside Hong Kong was held under medium-term lease.

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Analysed for reporting purposes as:		
Non-current asset	**10,012**	10,017
Current asset	**244**	238
	10,256	10,255

At 31 December 2004 and 2005, the leasehold land was pledged to a bank to secure a banking facility granted to the Group.

19. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES

	2005	2004
	HK$'000	HK$'000
Equity securities:		
Listed in Hong Kong, at market value	**1,379**	6,144
Classified as:		
Available-for-sale investments	**1,379**	–
Investments in securities for non-trading purpose	**–**	6,144
	1,379	6,144

As at the balance sheet date, all available-for-sale investments are stated at fair value. Fair value of those investments have been determined by reference to bid prices quoted in active market.

20. OTHER ASSETS

Other assets represent deposits with life insurance funds with attached insurances policies.

The insured persons are the directors of the Company and the Company is the beneficiary of the life insurance policies. The life insurance funds have guaranteed returns over the respective policy periods.

The fair value of the Group's other assets as at 31 December 2005 approximates to their corresponding carrying amount.

21. INVENTORIES

	2005	2004
	HK$'000	HK$'000
Raw materials	**5,947**	7,941
Work in progress	**176**	71
Finished goods	**25,463**	20,165
	31,586	28,177

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

22. OTHER FINANCIAL ASSETS

Debtors, deposits and prepayments

The Group has a policy of allowing average credit period of 60 to 90 days to its trade debtors. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK$54,587,000 (2004: HK$44,271,000) which are included in the Group's debtors, deposits and prepayments is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**20,555**	26,281
31 to 60 days	**15,748**	11,383
61 to 90 days	**11,186**	4,012
Over 90 days	**7,098**	2,595
	54,587	44,271
Other debtors, deposits and prepayments	**10,120**	8,122
	64,707	52,393

The fair value of the Group's debtors, deposits and prepayments at 31 December 2005 approximates to their corresponding carrying amount.

Bank balances and cash

The fair value of the Group's bank balances and cash at 31 December 2005 approximates to their corresponding carrying amount.

23. LOAN RECEIVABLES

The loans were made to independent third parties and were repayable within one year. Interests were charged at prime rate plus 3% to 5% per annum on the outstanding balances of the loans.

The effective interest rates on the Group's loan receivables were ranging from 10.00% to 12.75% (2004: 8%).

At 31 December 2005, loan receivables with an aggregate carrying amount of HK$4,805,000 (2004: HK$7,860,000) were secured by personal guarantees.

The fair value of the Group's loan receivables at 31 December 2005 approximates to their corresponding carrying amount.

24. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK$6,780,000 (2004: HK$4,942,000) which are included in the Group's creditors and accruals is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**2,686**	2,600
31 to 60 days	**984**	723
61 to 90 days	**1,615**	812
Over 90 days	**1,495**	807
	6,780	4,942
Other creditors and accruals	**3,532**	3,434
	10,312	8,376

The fair value of the Group's creditors and accruals at 31 December 2005 approximates to their corresponding carrying amount.

25. OBLIGATIONS UNDER A FINANCE LEASE

The lease term of the finance lease was five years. Interest rate is fixed at 2.28% at the contract date. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	**183**	183	**175**	165
More than one year, but not exceeding two years	**61**	183	**60**	175
More than two years, but not exceeding five years	**–**	60	**–**	60
	244	426	**235**	400
Less: Future finance charges	**(9)**	(26)	**–**	–
Present value of lease obligations	**235**	400	**235**	400
Less: Amount due within one year shown under current liabilities			**(175)**	(165)
Amount due after one year			**60**	235

The directors considered that the carrying amount of the obligations under a finance lease approximates to their fair value.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

26. BANK BORROWINGS

	2005	2004
	HK$'000	*HK$'000*
Bank borrowings comprise:		
Trust receipt loans	**5,876**	6,574
Other bank loans	**6,356**	5,716
	12,232	12,290
Analysed as:		
Secured	**4,593**	4,486
Unsecured	**7,639**	7,804
	12,232	12,290
Bank overdraft, unsecured	**185**	–

All bank borrowings are due for repayment within one year.

Bank borrowings included approximately HK$4,593,000 (2004: HK$4,486,000) was fixed-rate borrowings which carried interest at 5.58% per annum. The remaining bank borrowings and bank overdraft were variable-rate borrowings which carried interest ranging from HIBOR plus 0.5% to HIBOR plus 2.5% (2004: HIBOR plus 1.5% to HIBOR plus 2.5%), and their effective interest rates were ranging from 2.56% to 5.13% (2004: 3.06% to 5.91%).

The fair value of the Group's bank borrowings approximates to their carrying amounts.

27. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2004					
– As originally stated	776	4,328	–	(464)	4,640
– Effect of the changes in accounting policies under HKAS 17	–	(1,087)	–	–	(1,087)
– As restated	776	3,241	–	(464)	3,553
Charge (credit) to income statement for the year	825	–	–	(67)	758
Credit to equity for the year	–	(785)	–	–	(785)
At 31 December 2004	1,601	2,456	–	(531)	3,526
Charge (credit) to income statement for the year	733	157	(335)	289	844
Credit to equity for the year	–	(68)	–	–	(68)
At 31 December 2005	**2,334**	**2,545**	**(335)**	**(242)**	**4,302**

At the balance sheet date, the Group has unused tax losses of HK$3,962,000 (2004: HK$1,165,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$1,914,000 (2004: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$2,048,000 (2004: HK$1,165,000) due to the unpredictability of future profit streams.

28. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Nominal value	
	2005	2004	**2005**	2004
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
At beginning and end of year	**10,000,000**	10,000,000	**100,000**	100,000
Issue and fully paid:				
At beginning of year	**958,000**	800,000	**9,580**	8,000
Issue of shares by Placement and Subscription	**–**	160,000	**–**	1,600
Shares repurchased and cancelled	**–**	(2,000)	**–**	(20)
At end of year	**958,000**	958,000	**9,580**	9,580

The following changes in the share capital of the Company took place during the year ended 31 December 2004:

(a) On 27 January 2004, PME Investments (BVI) Co., Ltd. ("PME Investments"), a substantial shareholder of the Company of which its entire capital is owned as to one-third by each of Messrs. Cheng Kwok Woo, Cheng Kwong Cheong and Ms. Cheng Wai Ying, directors and shareholders of the Company, entered into a Placing Agreement with China Everbright Securities (HK) Limited to place 160,000,000 existing shares of the Company (the "Placement") at HK$0.45 per share. PME Investments also entered into a Subscription Agreement with the Company to subscribe for 160,000,000 new shares of the Company (the "Subscription") at HK$0.45 per share. All the placed shares have been placed under the Placing Agreement and completion of the Placement took place on 2 February 2004. The Subscription also completed on 10 February 2004. The new shares rank pari passu with the existing shares in all respects.

(b) In December 2004, the Company repurchased 2,000,000 its own shares through the Stock Exchange at an aggregate consideration of HK$300,000. The highest price and the lowest price per share are HK$0.150 and HK$0.149 respectively.

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

29. SHARE OPTIONS

Pursuant to the Company's share options scheme adopted on 23 October 2002, the board of directors of the Company may, at its discretion, grant options to full-times employees (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the date of grant.

The maximum number of shares which may be in issue upon exercise of options granted and yet to be exercised under the share option scheme and any other scheme of the Company shall not exceed 30% of the total issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted (included both exercised and outstanding options) in any 12 months period up to the date of grant to each eligible person shall not exceed 1% of the total issued share capital of the Company in issue, unless (i) a shareholders' circular is dispatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to herein; and (iii) the relevant eligible person and its associates abstain from the voting on the resolution.

A nominal consideration of HK$1 is payable on acceptance of each grant.

No share options have been granted under the scheme since its adoption.

30. ACQUISITION OF SUBSIDIARY

On 1 May 2005, the Group acquired 71% of the issued share capital of Wels International Company Limited for consideration of HK$517,000. This acquisition has been accounted for using the purchase method. The directors of the Company determined that the fair value of the assets and liabilities of the subsidiary acquired approximate to their carrying amounts before combination, accordingly no fair value adjustments have been put through.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

30. ACQUISITION OF SUBSIDIARY (Continued)

The net assets acquired in the transaction are as follows:

	2005 HK$'000
Net assets acquired:	
Inventories	295
Debtors, deposits and prepayments	743
Bank balances and cash	899
Creditors and accruals	(1,130)
Taxation payable	(40)
Net assets acquired	767
Minority interest	(222)
Discount on acquisition	(28)
	517
Satisfied by:	
Cash consideration	517
Net cash inflow (outflow) arising on acquisition:	
Cash consideration paid	517
Cash and cash equivalents acquired	(899)
	(382)

Wels International Company Limited contributed HK$6,556,000 to the Group's turnover and HK$159,000 to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total group revenue for the period would have been HK$193,859,000, and profit for the period would have been HK$5,206,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

31. DISPOSAL OF A SUBSIDIARY

The Group disposed of a subsidiary during the year. The net assets of this subsidiary at the date of disposal were as follows:

	2005	2004
	HK$'000	*HK$'000*
Net assets disposed of:		
Debtors, deposits and prepayments	**4,282**	6,160
Bank balances and cash	**1**	4
Creditors and accruals	**(3,243)**	(2,806)
Taxation payable	**(1,032)**	(3,358)
	8	–
Satisfied by:		
Cash consideration	**8**	–
Net cash inflow/(outflow) arising on disposal:		
Cash consideration	**8**	–
Bank balances and cash disposed of	**(1)**	(4)
	7	(4)

The subsidiary disposed of during the year did not contribute significantly to the Group's cash flows, turnover and profit from operations.

32. CAPITAL COMMITMENTS

At 31 December 2005, the Group had capital commitment of HK$29,000 (2004: HK$96,000) in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements.

33. EMPLOYEE RETIREMENT BENEFITS

The operating subsidiaries in Hong Kong joined the 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 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 contribution to the MPF Scheme at rates specified in the rules of the MPF Scheme. The obligation of the Group with respect of MPF Scheme is to make the required contribution under the MPF Scheme. The retirement benefits cost charged to the income statement represents contributions payable to the MPF Scheme by the Group.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

34. RELATED PARTY TRANSACTIONS

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

	2005	2004
	HK$'000	*HK$'000*
Short-term benefits	**4,237**	4,746
Post-employment benefits	**260**	284
	4,497	5,030

Details of Directors' remuneration (being the compensation of key management personnel) are set out in note 11.

(b) In 2004, the Group acquired the equity interest in PME Strategic Investment Company Limited from Panical Investment Limited at its carrying value of HK$2. Messrs. Cheng Kwok Woo, Cheng Kwok Cheong and Ms. Cheng Wai Ying, the directors and shareholders of the Company, have beneficial interests in Panical Investments Limited.

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries which are wholly-owned by the Company as at 31 December 2005 are as follows:

Name of subsidiary	**Place of incorporation/ registration**	**Issued and fully paid share capital/ registered capital** *(notes a and b)*	**Principal activities**
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK$300,000 *(note c)* Ordinary shares HK$30	Trading of polishing materials and equipment
PME International (BVI) Company Limited	British Virgin Islands	Ordinary shares US$30,000	Investment holding
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK$19,200,000 *(note c)* Ordinary shares HK$1,000	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co. Limited	Hong Kong	Ordinary shares HK$60,000	Trading of polishing equipment
Dongguan PME Polishing Materials & Equipments Co., Ltd.	PRC	Registered capital (note d) HK$40,000,000	Manufacturing and trading of polishing materials

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(a) The Company directly holds the entire interest in PME International (BVI) Company Limited. The interests of all other subsidiaries are indirectly held by the Company.

(b) Except for Dongguan PME Polishing Materials & Equipments Co., Ltd. which operates in the PRC, all the principal subsidiaries operate principally in Hong Kong.

(c) The 5% non-voting deferred shares of HK$1 each are not held by the Group and practically carrying no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the companies. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining asset of the companies only after the distribution of HK$1,000,000 million, as specified in the articles of association, to holders of ordinary shares.

(d) Established as a wholly foreign owned enterprises.

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

None of the subsidiaries had any debt securities subsisting at 31 December 2005 or at any time during the year.