

Notes to the Financial Statements

For the year ended 30 June 2006

1. General

The Company is an exempted company with limited liability incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the register office and principal place of business of the Company are disclosed in Corporate Information in the annual report.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and trading of cables and wires, copper rods, connectors and terminals, life-like plants and production, distribution and licensing of television programmes. Its associate is principally engaged in the manufacture of optical fibre cable and its major jointly controlled entity is engaged in the manufacture and sales of copper wires.

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

During the last period, the Directors resolved to change the financial year end date of the Company and its subsidiaries (the "Group") from 31 March to 30 June in order to allow the Group to prepare and update its financial results on semi-annual basis as most members of the Group are in the People's Republic of China (the "PRC") having year end date of 31 December. As a result, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the prior period covered the 15 months period ended 30 June 2005 and the current period covered the 12 months year ended 30 June 2006, and therefore may be not comparable.

2. Adoption of New/Revised Hong Kong Financial Reporting Standards/Changes in Accounting Policies

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business combinations", HKAS 36 "Impairment of assets" and HKAS 38 "Intangible assets" which the Group had early adopted in the accounting period ended 30 June 2005. The application of the other new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Owner-occupied leasehold interest in land

The Group has land use rights in the People's Republic of China (the "PRC"), with buildings erected on them for manufacturing purposes. In previous years, these property interests were included in property, plant and equipment and measured using the revaluation model. Under HKAS 17 "Leases", the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The Group has resolved to state the buildings at cost and amortised over the lease term on a straight-line basis and reversed the amount held in the asset revaluation reserve and corresponding deferred taxation accordingly. This change in accounting policy has been applied retrospectively. (See note 2A for the financial impact).

2. Adoption of New/Revised Hong Kong Financial Reporting Standards/Changes in Accounting Policies (continued)

Financial instruments

In the current year, the Group has applied HKAS 32 “Financial instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for accounting 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 principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

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”. The classification depends on the purpose for which the assets are acquired. “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.

Derivative financial instruments

By 30 June 2005, the Group’s derivative financial instruments, mainly comprised future contracts, foreign exchange forward contracts and interest rates swaps, were previously recorded off balance sheet. Realised gain or loss of these derivative financial instruments were recognised in the income statement on settlement date, except for net interest on interest rate swaps, which were previously accounted for on an accrual basis.

From 1 July 2005 onwards, HKAS 39 requires derivative financial instruments that are within the scope of HKAS 39 to be carried at fair value at each balance sheet date, regardless of whether they are designated as effective hedging instruments. Derivatives (including embedded derivatives separately accounted for from non-derivative host contracts) are deemed as held for trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. Derivative financial instruments that do not qualify for hedge accounting are deemed as investments held for trading. Changes in fair value of such derivative financial instruments are recognised in profit or loss as they arise. The Group has applied the relevant transitional provisions in HKAS 39. As a result, certain options embedded in the convertible notes are separately accounted for and recorded as derivative financial instruments in the balance sheet, with changes in fair value recognised in the income statement. (See note 2A for the financial impact).

Convertible notes

The principal impact of HKAS 32 and HKAS 39 on the Group is in relation to convertible notes issued by the Company. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately, except in the case that the settlement were not at fixed amount for a fixed number of equity instrument, which HKAS 39 requires the issuer to recognise the compound financial instrument in the form of financial liability with embedded derivatives. HKAS 39 requires derivatives embedded in a non-derivatives host contract to be accounted for separately when the economic risks and characteristics are not closely related to those host contract and the host contract is not carried at fair value through profit or loss. The Group has applied HKAS 32 and HKAS 39 on the convertible bonds issued by the Company in current accounting year and the embedded derivatives on the convertible notes. The fair value of options embedded in convertible notes issued during the year is HK\$12,492,000 and there is no change in fair value between the date of grant and the balance sheet date.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

2. Adoption of New/Revised Hong Kong Financial Reporting Standards/Changes in Accounting Policies *(continued)*

Financial instruments *(continued)*

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. 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 qualified for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 July 2005. As a result, the Group's bills receivable with full recourse which derecognised prior to 1 July 2005 have not been restated. As at 30 June 2006, the Group's bills receivable with recourse have not been derecognised. Instead, the related borrowings of HK\$24,696,000 have been recognised on the balance sheet date. The change has had no material effect on the results for the current year.

Share-based payments

In the current period, 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 employees' and other eligible parties' 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 1 July 2005. In relation to share options granted before 1 July 2005, the Group has not applied HKFRS 2 to share options granted after 7 November 2002 and had vested before 1 July 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 July 2005. For share options that were granted after 7 November 2002 and fully vested before 1 July 2005, no prior period adjustments are made. For the share options that were granted by the listed subsidiary on 1 April 2005, 11,806,000 out of 12,956,000 share options had been vested before 1 July 2005 and no prior period adjustments are made accordingly. For the remaining 1,150,000 share options which have not been vested on 1 July 2005, the Group considered the effect is not significant and no prior period adjustments are made. For the share options that were granted during the year, the fair value of share options has been expensed in the income statement over the vesting period. (See not 2A for the financial impact).

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

- (i) The effects of the changes in accounting policies on the results for the year ended 30 June 2006 are as follows:

	Effect of adopting			Total
	HKAS 17	HKAS 39	HKFRS 2	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Decrease) increase in profit for the year:				
General and administrative expenses	(153)	–	(5,348)	(5,501)
Changes in fair value of derivative financial instruments	–	4,585	–	4,585
Profit before taxation	(153)	4,585	(5,348)	(916)
Taxation	–	(802)	–	(802)
Profit for the year	(153)	3,783	(5,348)	(1,718)

- (ii) The effects of the changes in accounting policies on the results for the period ended 30 June 2005 are as follows:

	Effect of adopting HKAS 17
	HK\$'000
Increase in loss for the period:	
General and administrative expenses	476
Loss before taxation	476
Taxation	–
Loss for the period	476

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

2A. Summary of the Effects of the Changes in Accounting Policies *(continued)*

- (iii) The cumulative effects of the changes in accounting policies on the consolidated balance sheet as at 30 June 2005 and 1 July 2005 are summarised below:

	As at 30 June 2005 (originally stated) HK\$'000	HKAS 17 Adjustments HK\$'000	As at 30 June 2005 (restated) HK\$'000	HKAS 39 Adjustments HK\$'000	As at 1 July 2005 (restated) HK\$'000
Property, plant and equipment	498,460	(115,801)	382,659	–	382,659
Prepaid lease payments for land	–	83,516	83,516	–	83,516
Derivative financial assets	–	–	–	4,866	4,866
Derivative financial liabilities	–	–	–	(3,572)	(3,572)
Deferred tax liabilities	(14,867)	3,414	(11,453)	–	(11,453)
	483,593	(28,871)	454,722	1,294	456,016
Asset revaluation reserve	33,202	(33,202)	–	–	–
Retained profits	99,904	6,145	106,049	2,147	108,196
Minority interests	105,644	(1,814)	103,830	(853)	102,977
Total	238,750	(28,871)	209,879	1,294	211,173

- (iv) The financial effects of the application of the new HKFRSs to the Group's equity on 1 April 2004 are summarised below:

	As originally stated HK\$'000	HKAS 17 Adjustments HK\$'000	As restated HK\$'000
Asset revaluation reserve	22,814	(22,814)	–
Retained profits	159,875	6,833	166,708
Minority interests	14,026	–	14,026
Total effects on equity	196,715	(15,981)	180,734

2B. Potential Impact Arising on the New or Revised Accounting Standards not yet Effective

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Group has not already commenced an assessment of the impact of these new or revised standards, amendments and interpretations on the financial position of the Group. The Group anticipates that the applications of these new or revised standards, amendments and interpretations would not have significant impact on the result and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	The effects of change in foreign exchange rate – 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 Economics ⁴
HK(IFRIC)-INT 8	Scope of HKFRS 2 ⁵
HK(IFRIC)-INT 9	Reassessment of embedded derivatives ⁶
HK(IFRIC)-INT 10	Interim financial reporting and impairment ⁷

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.

⁵ Effective for annual periods beginning on or after 1 May 2006.

⁶ Effective for annual periods beginning on or after 1 June 2006.

⁷ Effective for annual periods beginning on or after 1 November 2006.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

3. Significant Accounting Policies

The consolidated financial statements have been prepared under the historical basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

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

All inter-company 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 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 acquisition")

A discount on acquisition arising on an acquisition of a subsidiary represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combinations. Discount on acquisition is recognised immediately in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

Income from the licensing and sub-licensing of Television programme is recognised, upon the delivery of master tapes to customers.

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

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

Borrowing costs

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

3. Significant Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress and leasehold improvement over their estimated useful lives.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Buildings are depreciated over the shorter of the term of the lease or fifty years using the straight-line method.

Leasehold improvement are depreciated over the shorter of the term of the lease or their estimated useful life under straight-line method.

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

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

Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Prepaid lease payments on land use right

Prepaid lease payments on land use rights are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments on land use rights are amortised on a straight-line basis over the term of the land use right of the relevant company.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

3. Significant Accounting Policies (continued)

Impairment of assets

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 losses are recognised in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as profit or loss.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Inventories

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

Television programmes and sub-licensing rights

Television programmes ("TV programmes")

TV programmes produced by the Group are stated at the lower cost and net realisable value. Costs represent the carrying amount transferred from TV programmes in progress upon completion.

Sub-licensing rights

Licence fees paid to acquire the rights for the sub-licensing of TV programmes produced by third parties in specified geographical areas and time periods are accounted for as sub-licensing rights. Upon the lease of these purchased TV programmes, the relevant portion of the licence fees are charged to the income statement on a systematic basis, with reference to the projected revenue and the underlying licence periods.

Borrowing costs

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

3. Significant Accounting Policies (continued)

Taxation

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

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

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

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

3. Significant Accounting Policies (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items 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 as profit or loss in the period in which they arise. Exchange differences arising on the translation of non-monetary items carried at fair value are included as profit or loss.

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

Retirement benefits schemes

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group 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 and 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 as profit or loss.

The Group's financial assets mainly include loans and receivables.

Loan 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 debtors, deposits, bills receivable, notes receivable and bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment loss. An impairment loss is recognised as profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. Significant Accounting Policies (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Bank borrowings are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

Convertible notes

Convertible notes issued by the Company, which settlements were not at fixed amount for a fixed number of equity instruments, are recognised as compound financial instruments in form of financial liability with embedded derivatives. At the date of issue, the liability component of convertible notes is recognised at fair value and is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into ordinary shares of the Company.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method.

Other financial liabilities

Other financial liabilities including creditors and bills payable 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.

Derivatives not qualified for hedging

Derivatives that do not qualify for hedge accounting are deemed as financial assets/financial liabilities held for trading and are measured at fair value with fair value changes recognised in profit or loss except for derivative instruments which are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured and such derivative instruments are stated at cost less impairment, if applicable.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss.

Derivatives financial instruments is initially measured at fair value on the contract date, and is remeasured to fair value at subsequent reporting date.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

3. Significant Accounting Policies (continued)

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.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

For the share options that were granted after 1 July 2005, the fair value of share options has been recognised in the income statement as share based payments.

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share option reserve.

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

Share options granted to others

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received unless that fair value cannot be estimated reliably, in which case the fair value is estimated by reference to the fair value of the share options. The fair values of the goods or services received are recognised as expenses on a straight-line basis over the period of service, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to share option reserve.

4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, the Group has made the following judgements that have significant effect on the amounts recognised in the financial statements.

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 key 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.

Fair value estimation

The fair value of derivative financial instruments and convertible notes is estimated by reference to the valuations carried out by banks, financial institute or professional valuers. Such valuation was based on assumptions using available market data. Any change in the assumptions will have an impact to the financial position in future.

5. Financial Risk Management Objectives and Policies

The Group's major financial instruments include debtors, deposits, bills receivable, derivative financial assets and liabilities, creditors, bills payable and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

Most of the Group's assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi which are the functional currencies of respective group companies. The Group does not expect any significant exposure to foreign currency risks.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations 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 credit risk, the Group has policies in place 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 credit risk is significantly reduced.

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

The Group is exposed to credit risk of notes receivable in the event of the notes issuer's failure to settle the outstanding balance of notes receivable of HK\$55,000,000. In light of this, the Group has closely monitored the financial position of the notes issuer to ensure that adequate impairment loss has been made. As the directors of the Company consider that the notes have not been matured at the balance sheet date and there are no indications of deteriorations in the financial position of the note issuer, no impairment loss has been recognised at the balance sheet date.

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

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of the financial instruments will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk which relates primarily to the Group's floating rate bank borrowings. It is the Group's policy to maintain borrowings at market interest rate and to restrict the exposable to fair value interest rate risk.

Copper price risk

The Group is exposed to price risk of copper cathodes, which are the major raw materials for the production process. To mitigate the copper price risk, the Group has entered into future copper contracts to hedge against the fluctuations of copper price. Details of the copper future contracts outstanding at balance sheet date are set out in note 29.

6. Turnover

Turnover represents the amounts received and receivable for goods sold to outside customers, net of returns and discounts and income from licensing of television programme, during the year.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

7. Segmental Information

Business segments

For management purposes, the Group is currently organised into four principal operating divisions - manufacture and trading of cables and wires, copper rods, connectors and terminals and life-like plants. Others mainly comprised of the manufacturing and trading of chemical good. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

For the year ended 30 June 2006

	Cables and wires HK\$'000	Copper rods HK\$'000	Connectors and terminals HK\$'000	Life-like plants HK\$'000	Others HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
TURNOVER								
External sales	653,271	1,209,150	139,897	87,605	25,625	–	–	2,115,548
Inter-segment sales	94,460	215,300	1,284	–	–	(311,044)	–	–
Total sales	747,731	1,424,450	141,181	87,605	25,625	(311,044)	–	2,115,548
Inter-segment sales are charged at cost.								
RESULT								
Segment result	9,837	142,205	5,372	1,479	1,504			160,397
Unallocated corporate income	–	–	–	–	–	–	7,642	7,642
Unallocated corporate expenses	–	–	–	–	–	–	(25,821)	(25,821)
Change in fair value of derivative financial instruments	–	–	–	–	–	–	8,989	8,989
Finance costs	–	–	–	–	–	–	–	(36,565)
Share of results of associates	236	–	–	–	–	–	–	236
Share of result of jointly controlled entities	–	10	–	–	–	–	–	10
Discount on acquisition of subsidiaries	–	892	–	–	–	–	–	892
Gain on deemed disposal of subsidiaries	–	19,576	–	–	–	–	–	19,576
Profit before taxation								135,356
Taxation								(21,354)
Profit for the year								114,002

7. Segmental Information (continued)

Business segments (continued)

At 30 June 2006

	Cables and wires HK\$'000	Copper rods HK\$'000	Connectors and terminals HK\$'000	Life like plants HK\$'000	Others HK\$'000	Consolidated HK\$'000
BALANCE SHEET						
Assets						
Segment assets	863,312	855,488	83,681	100,041	48,684	1,951,206
Interests in associates	10,509	–	–	–	–	10,509
Interests in jointly controlled entities	17,485	–	–	–	–	17,485
Unallocated corporate assets						140,012
Consolidated total assets						2,119,212
Liabilities						
Segment liabilities	111,374	144,730	23,248	14,469	6,736	300,557
Unallocated corporate liabilities						665,049
Consolidated total liabilities						965,606

OTHER INFORMATION

	Cables and wires HK\$'000	Copper rods HK\$'000	Connectors and terminals HK\$'000	Life like plants HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	23,687	29,296	2,813	256	714	–	56,766
Depreciation	20,889	8,073	2,522	1,934	2,487	–	35,905
Allowance for doubtful debts	3,956	–	–	–	–	–	3,956
Write down of inventories	7,925	–	–	–	–	–	7,925

Notes to the Financial Statements (continued)

For the year ended 30 June 2006

7. Segmental Information (continued)

Business segments (continued)

For the period 1 April 2004 to 30 June 2005 (Restated)

	Cables and wires HK\$'000	Copper rods HK\$'000	Connectors and terminals HK\$'000	Life-like plants HK\$'000	Others HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
TURNOVER								
External sales	807,486	1,041,881	147,708	40,710	18,503	–	–	2,056,288
Inter-segment sales	11,765	191,329	679	–	–	(203,773)	–	–
Total sales	819,251	1,233,210	148,387	40,710	18,503	(203,773)	–	2,056,288
Inter-segment sales are charged at cost.								
RESULT								
Segment result	(29,823)	40,587	13,608	2,557	(21,322)			5,607
Unallocated corporate income	–	–	–	–	–	–	5,901	5,901
Unallocated corporate expenses	–	–	–	–	–	–	(8,338)	(8,338)
Finance costs	–	(20,167)	–	(146)	(3,312)	–	(8,509)	(32,134)
Impairment loss recognised in respect of goodwill	–	–	–	(16,212)	–	–	–	(16,212)
Share of results of associates	289	–	–	–	–	–	–	289
Loss on disposal of subsidiaries	–	–	–	(7,502)	–	–	–	(7,502)
Gain on deemed disposal of a subsidiary	–	1,845	–	–	–	–	–	1,845
Loss before taxation								(50,544)
Taxation								(10,504)
Loss for the period								(61,048)

7. Segmental Information (continued)

Business segments (continued)

At 30 June 2005 (Restated)

	Cables and wires HK\$'000	Copper rods HK\$'000	Connectors and terminals HK\$'000	Life like plants HK\$'000	Others HK\$'000	Consolidated HK\$'000
BALANCE SHEET						
Assets						
Segment assets	639,233	462,378	68,347	107,805	48,191	1,325,954
Interests in associates						9,885
Unallocated corporate assets						87,696
Consolidated total assets						1,423,535
Liabilities						
Segment liabilities	81,937	30,328	16,112	19,225	10,431	158,033
Unallocated corporate liabilities						404,896
Consolidated total liabilities						562,929

OTHER INFORMATION

	Cables and wires HK\$'000	Copper rods HK\$'000	Connectors and terminals HK\$'000	Life like plants HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	15,329	7,151	2,791	1,222	1,731	100	28,324
Depreciation	21,840	10,357	2,594	3,183	5,136	8	43,118
Allowance for (reversal of) doubtful debts	23,716	(3,825)	–	14	3,586	–	23,491
Write down of inventories	2,993	–	–	–	–	–	2,993
Impairment loss recognised in respect of property, plant and equipment	–	–	–	–	14,000	–	14,000

Notes to the Financial Statements (continued)

For the year ended 30 June 2006

7. Segmental Information (continued)

Geographical segments

The Group's operations are located in Hong Kong, the PRC, North America, Europe and other Asian regions.

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

	Turnover by geographical market	
	1.7.2005 to 30.6.2006 HK\$'000	1.4.2004 to 30.6.2005 HK\$'000
PRC	1,705,297	1,501,303
North America	188,098	222,807
Europe	38,013	41,023
Hong Kong	38,645	94,375
Other Asian regions	145,495	196,780
	2,115,548	2,056,288

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	
	2006 HK\$'000	2005 HK\$'000	1.7.2005 to 30.6.2006 HK\$'000	1.4.2004 to 30.6.2005 HK\$'000
PRC	1,280,295	795,554	47,123	23,623
Hong Kong	654,394	526,202	7,253	1,849
North America	52,411	35,268	–	61
Other Asian regions	77,112	66,491	2,390	2,791
	2,064,212	1,423,515	56,766	28,324

8. Profit (Loss) Before Taxation

	1.7.2005 to 30.6.2006 HK\$'000	1.4.2004 to 30.6.2005 HK\$'000 (Restated)
Profit (loss) before taxation has been arrived at after charging:		
Auditors' remuneration		
Current year	2,546	2,158
Underprovision in prior years	74	–
	2,620	2,158
Depreciation of property, plant and equipment		
Owned assets	35,370	42,412
Assets held under finance leases	535	706
	35,905	43,118
Charge of prepaid lease premium for land	2,334	1,999
Cost of inventories recognised as an expenses	1,801,430	1,722,804
Operating lease rentals in respect of rented premises	5,677	5,725
Staff costs including directors' emoluments	94,889	114,605
Research and development expenditure	2,158	3,579
Exchange loss, net	–	250
Loss on disposal of property, plant and equipment	595	108
Write down of inventories	7,925	2,993
Impairment on property, plant and equipment	–	14,000
Share-based payment expense	5,348	2,200
and after crediting:		
Exchange gain	5,022	–
Interest on bank deposits	5,019	4,221
Interest on notes receivables	4,632	4,200

Notes to the Financial Statements (continued)

For the year ended 30 June 2006

9. Emoluments of Directors and Five Highest Paid Individuals

Particulars of the emoluments of the directors and the five highest paid individuals for the year/period were as follows:

Name of Director	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefit scheme contributions HK\$'000	1.7.2005	1.4.2004
				to 30.6.2006 Total HK\$'000	to 30.6.2005 Total HK\$'000
Mr. Chau Lai Him	–	5,027	18	5,045	3,975
Mr. Zhou Jin Hua	–	1,200	–	1,200	2,417
Mr. Lau Man Tak	–	1,418	12	1,430	1,775
Mr. Liu Jiu Rong	–	102	–	102	119
Mr. Lo Kao Cheng	–	–	–	–	–
Mr. Lo Wai Ming	96	–	–	96	120
Mr. Chung Kam Kwong	160	–	–	160	101
Total	256	7,747	30	8,033	8,507

The five highest paid individuals of the Group include three (period ended 30 June 2005: three) executive directors of the Company, details of whose emoluments are included above. The emoluments of the remaining two (period ended 30 June 2005: two) individuals for the period ended 30 June 2006 were as follows:

	1.7.2005	1.4.2004
	to	to
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Salaries and other benefits	1,500	1,795
Performance related incentive payments	91	76
Contributions to retirement benefits schemes	114	125
	1,705	1,996

Emoluments of these individuals were within the following bands:

	Number of employees	
	1.7.2005	1.4.2004
	to	to
	30.6.2006	30.6.2005
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	1	1

10. Finance Costs

	1.7.2005 to 30.6.2006 HK\$'000	1.4.2004 to 30.6.2005 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	35,421	31,749
Interest on finance leases	184	385
Imputed interest on convertible notes	960	–
	36,565	32,134

11. Taxation

	1.7.2005 to 30.6.2006 HK\$'000	1.4.2004 to 30.6.2005 HK\$'000 (Restated)
Hong Kong Profits Tax		
Current year/period	5,139	–
Under(over) provision in respect of prior years	1,760	(307)
Taxation in other jurisdictions		
Current year/period	5,640	9,152
Under (over) provision in respect of prior years	274	(1,044)
	12,813	7,801
Deferred taxation (Note 28)		
Current year/period	8,541	2,703
	21,354	10,504

Hong Kong Profits Tax is calculated at 17.5% (period ended 30 June 2005: 17.5%) of the estimated assessable profit for the year/period.

Taxation in other jurisdictions is calculated at the rates applicable in the respective jurisdictions.

Notes to the Financial Statements (continued)

For the year ended 30 June 2006

11. Taxation (continued)

The tax charge for the year/period can be reconciled to the profit (loss) before taxation per the income statement as follows:

	1.7.2005 to 30.6.2006 HK\$'000	1.4.2004 to 30.6.2005 HK\$'000
Profit (Loss) before taxation	135,356	(50,544)
Tax at the domestic income tax rate of 27% (2005: 27%)	36,546	(13,647)
Tax effect of expenses not deductible for tax purpose	1,273	24,389
Tax effect of income not taxable for tax purpose	(8,216)	(2,651)
Tax effect of tax losses not recognised	–	1,815
Utilisation of tax losses previously not recognised	(6,281)	(3,702)
Income tax on concessionary rate	–	4,375
Under (over) provision in respect of prior years	2,034	(1,351)
Others	(65)	(715)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(3,873)	2,069
Share of tax effect of associate	(64)	(78)
Tax charge for the year/period	21,354	10,504

The domestic tax rate of principal subsidiaries in the PRC is used as it is where the operation of the Group is substantially based.

12. Dividends

	1.7.2005 to 30.6.2006 HK\$'000	1.4.2004 to 30.6.2005 HK\$'000
Proposed final dividend in respect of year 2005/2006 at HK4 cents per share (2004/2005: Nil)	19,403	–

The final dividend in respect of 2005/2006 of HK4 cents per share has been proposed by the Directors and is subject to approval by shareholders at the annual general meeting.

13. Earning (Loss) Per Share

The calculation of the basic earning (loss) per share is based on the following data:

	1.7.2005	1.4.2004
	to	to
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
		(Restated)
Results for the year/period attributable to equity owners of parents for the purpose of basic earnings (loss) per share	78,856	(60,659)
Imputed interest on convertible notes	960	–
Earnings (loss) for the purposes of diluted earnings per share	79,816	(60,659)
	Number of shares	
	1.7.2005	1.4.2004
	to	to
	30.6.2006	30.6.2005
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	403,575,321	320,138,287
Effect of dilutive potential ordinary shares:		
Share options	11,908,534	–
Convertible notes	10,050,311	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	425,534,166	320,138,287

The effect of potential ordinary shares in respect of share options of the listed subsidiary is anti-dilutive.

The prior period adjustments as mentioned in note 2 have no significant impact on the earnings per share.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

14. Property, Plant and Equipment

	Construction in progress HK\$'000	Buildings HK\$'000	Leasehold improvements HK\$'000	Equipment, furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1 April 2004 – as originally stated	–	230,662	17,266	62,456	331,459	16,030	657,873
– effect of changes in accounting policies (note 2)	–	(27,276)	–	–	–	–	(27,276)
– as restated	–	203,386	17,266	62,456	331,459	16,030	630,597
Currency realignment	–	–	(2)	(15)	(25)	–	(42)
Additions	14,944	2,284	1,066	2,838	5,363	1,829	28,324
Acquired on acquisition of subsidiaries	–	47,540	–	2,023	8,088	172	57,823
Disposals	–	–	(4)	(47)	–	(934)	(985)
Disposed on disposal of subsidiaries	–	(18,618)	–	(300)	–	–	(18,918)
At 30 June 2005	14,944	234,592	18,326	66,955	344,885	17,097	696,799
Currency realignment	586	7,834	525	1,393	5,822	144	16,304
Additions	28,193	6,225	6,666	2,938	8,597	4,147	56,766
Reclassification	–	–	–	2,439	(2,439)	–	–
Disposals	–	–	–	–	–	(2,625)	(2,625)
At 30 June 2006	43,723	248,651	25,517	73,725	356,865	18,763	767,244

14. Property, Plant and Equipment (continued)

	Construction in progress HK\$'000	Buildings HK\$'000	Leasehold improvements HK\$'000	Equipment, furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 April 2004, as originally stated	–	–	6,267	39,768	143,984	9,139	199,158
Effect of changes in accounting policies (note 2)	–	59,132	–	–	–	–	59,132
as restated	–	59,132	6,267	39,768	143,984	9,139	258,290
Currency realignment	–	–	(2)	(10)	(11)	–	(23)
Provided for the period	–	9,370	1,728	6,798	23,204	2,018	43,118
Impairment loss recognised	–	–	–	–	14,000	–	14,000
Eliminated on disposals	–	–	(3)	(44)	–	(730)	(777)
Eliminated on disposal of subsidiaries	–	(322)	–	(146)	–	–	(468)
At 30 June 2005	–	68,180	7,990	46,366	181,177	10,427	314,140
Currency realignment	–	2,584	211	969	3,355	61	7,180
Provided for the year	–	8,972	1,459	4,652	19,065	1,757	35,905
Reclassification	–	–	–	1,268	(1,268)	–	–
Eliminated on disposals	–	–	–	–	–	(2,030)	(2,030)
At 30 June 2006	–	79,736	9,660	53,255	202,329	10,215	355,195
CARRYING VALUES							
At 30 June 2006	43,723	168,915	15,857	20,470	154,536	8,548	412,049
At 30 June 2005	14,944	166,412	10,336	20,589	163,708	6,670	382,659

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

14. Property, Plant and Equipment *(continued)*

Buildings and leasehold improvements are depreciated over the lease terms and at 10% on a straight-line basis respectively.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Equipment, furniture and fixtures	20%
Plant and machinery	6.67% – 20%
Motor vehicles	20% – 30%

	2006 HK\$'000	2005 HK\$'000
Buildings situated in the PRC		
– held under medium term leases	165,638	163,057
– held under long leases	1,724	1,763
Buildings situated in Hong Kong held under medium term leases	1,553	1,592
	168,915	166,412

In prior period, continuing operating losses were recorded by a subsidiary which is engaged in the manufacture and trading of chemical products in the PRC. The Directors had estimated the recoverable amount of the relevant plant and machinery employed in the manufacture of chemical products by reference to value-in-use. Based on the discounted future cash flow, the recoverable amount was less than their carrying amount. Accordingly, an impairment loss of HK\$14,000,000 had been recognised in the income statement.

At 30 June 2006, the carrying value of property, plant and equipment of the Group includes plant and machinery of HK\$3,928,000 (31.3.2005: HK\$4,590,000) and motor vehicles of HK\$696,000 (31.3.2005: HK\$226,000) in respect of assets held under finance leases.

15. Prepaid Lease Payments for Land

	2006 HK\$'000	2005 HK\$'000
Leasehold land under medium-lease in the PRC	94,322	83,516
Analysed for reporting purposes as:		
Non-current	92,149	81,506
Current	2,173	2,010
	94,322	83,516

16. Interests in Associates

	2006 HK\$'000	2005 HK\$'000
Cost of unlisted investment	490,697	490,697
Share of post-acquisition profits and reserve, net of impairment	(480,188)	(480,812)
	10,509	9,885

The following list contains only the particulars of the associate at 30 June 2006 which principally affects the results of the year or form a substantial portion of the net assets or liabilities of the Group, as the directors are of the opinion that a full list of all the associates would be of excessive length.

Name of company	Place of registration	Proportion of nominal value of issued capital indirectly held by the Company	Principal activities
侯馬普天榮盛光纜有限公司	PRC	20%	Manufacture and trading of optical fibre cable and related products

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

16. Interests in Associates *(continued)*

The summarised financial information in respect of the Group's associates for the year ended 30 June 2006 and period ended 30 June 2005 is as follows:

	2006 HK\$'000	2005 HK\$'000
Total assets	91,190	77,890
Total liabilities	(38,645)	(28,465)
	52,545	49,425
Group's share of net assets of associate	10,509	9,885
Revenue	81,665	48,985
Profit for the year/period	1,180	1,445
Group's share of results of associate for the year/period	236	289

17. Interests in Jointly Controlled Entities

	2006 HK\$'000	2005 HK\$'000
Cost of unlisted investments	66,626	49,151
Share of post-acquisition profits and reserve, net of impairment	(49,141)	(49,151)
	17,485	–

17. Interests in Jointly Controlled Entities (continued)

Particulars of the Group's interest in the jointly controlled entities as at 30 June 2006 are as follows:

Name of company	Place of incorporation	Proportion of registered capital indirectly held by the Company	Principal activities
常州柏濤樓宇智能有限公司 Changzhou Bo Tao Lou Yu Zhi Neng Co., Ltd.	PRC	40%	Manufacture and distribution of computer network parts and components
福建金藝銅業有限公司 Fujian Jingyi Copper Products Limited	PRC	45%	Manufacture and sales of copper wires

The summarised financial information in respect of the Group's interests in the jointly controlled entities for the year ended 30 June 2006 is as follows:

	2006 HK\$'000	2005 HK\$'000
Current assets	9,525	—
Non-current assets	8,151	—
Current liabilities	(191)	—
Non-current liabilities	—	—
Income	10	—
Expenses	—	—

18. Notes Receivable

Pursuant to a sale and purchase agreement entered into between a Company's subsidiary and an independent third party in 2003, the Group had disposed of certain subsidiaries at a total consideration of HK\$60,000,000 of which HK\$5,000,000 was settled in cash and HK\$55,000,000 will be settled by promissory notes. The notes are secured by assets owned by the notes issuer, carry interest at prime rate plus 2% per annum and are wholly repayable in June 2007.

The directors consider the carrying amount of notes receivable appropriate to its fair value.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

19. Inventories

	2006 HK\$'000	2005 HK\$'000
Raw materials	138,170	111,131
Work in progress	24,632	23,250
Finished goods	207,993	170,261
	370,795	304,642

20. Television Programmes and Sub-licensing Rights

	2006 HK\$'000	2005 HK\$'000
Television programmes	423	386
Sub-licensing rights	–	577
	423	963

21. Debtors, Deposits and Prepayments

Included in the Group's debtors, deposits and prepayments were trade debtors of HK\$368,949,000 (2005: HK\$282,918,000).

The Group allows an average credit period of 45 days to its trade customers.

The aging analysis of trade debtors is as follows:

	2006 HK\$'000	2005 HK\$'000
Within 30 days	196,331	164,035
31 – 60 days	93,099	63,875
61 – 90 days	45,946	32,444
Over 90 days	33,573	22,564
	368,949	282,918

The directors consider the carrying amounts of debtors and deposits approximate to their fair values.

22. Bills Receivable

The aging analysis of bills receivable as at 30 June 2006 and 30 June 2005 are within 90 days.

The directors consider the carrying amount of bills receivable approximates to its fair value.

23. Bank Balances and Cash

Bank balances and deposits comprise cash held by the Group and deposits with maturity of three months or less held with banks not restricted in use and carried at effective interest rates of bank balances and deposits range from 1% to 3% per annum. The carrying amounts of the Group's bank balances and cash approximates to its fair value.

24. Creditors and Accrued Charges

Included in the Group's creditors and accrued charges were trade creditors of HK\$90,046,000 (2005: HK\$95,752,000).

The aging analysis of trade creditors is as follows:

	2006 HK\$'000	2005 HK\$'000
Within 30 days	50,776	51,338
31 – 60 days	26,061	27,522
61 – 90 days	8,712	14,665
Over 90 days	4,497	2,227
	90,046	95,752

The directors consider the carrying amount of creditors and accrued charges approximate to its fair value.

25. Bills Payable

The aging analysis of bills payable at 30 June 2006 and 30 June 2005 are within 90 days.

The directors consider the carrying amount of bills payable approximates to its fair value.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

26. Obligations under Finance Leases

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under finance leases				
Within one year	1,177	2,386	1,030	2,144
In the second to fifth year inclusive	2,088	2,274	1,649	2,060
	3,265	4,660		
Less: Future finance charges	(586)	(456)		
Present value of lease obligations	2,679	4,204	2,679	4,204
Less: Amount due within one year			(1,030)	(2,144)
Amount due after one year			1,649	2,060

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The average lease term is 4 years. For the year ended 30 June 2006, the average effective borrowing rate was 6.1% (period ended 30 June 2005: 6.1%) per annum. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

The directors consider that carrying amounts of obligations under finance leases approximate to their fair values.

27. Borrowings/Bank Overdrafts

	2006 HK\$'000	2005 HK\$'000
Borrowings are analysed as follows:		
Bank loans	79,303	81,168
Trust receipt loans	441,934	234,500
Invoice financing loans	8,284	36,083
Other loans	13,584	14,279
	543,105	366,030
Bank overdrafts	280	1,315
	543,385	367,345
Secured	264,996	227,920
Unsecured	278,389	139,425
	543,385	367,345

All the above borrowings are repayable on demand or within one year and carried at floating interest rates.

The Directors consider that the current interest rates represent prevailing market rates and therefore, the fair values of the bank borrowings at 30 June 2006 approximate to the corresponding carrying amounts.

The average effective interest rates of the bank borrowings range from 4.7% to 9.5% (2005: 4.3% to 7.5%) per annum.

All the Group's bank borrowings are denominated in the functional currencies of the relevant group entities.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

28. Deferred Taxation

The followings are the major deferred tax (assets) liabilities recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Allowance for doubtful debts HK\$'000	Write down of inventories HK\$'000	Others HK\$'000	Total HK\$'000
THE GROUP						
At 1 April 2004, as originally stated	14,202	(523)	(600)	(2,636)	–	10,443
Change in accounting policies (note 2)	(1,712)	–	–	–	–	(1,712)
As restated	12,490	(523)	(600)	(2,636)	–	8,731
Exchange realignment	(1)	–	–	–	–	(1)
Charge (credit) to income statement	6,163	(4,380)	426	780	(286)	2,703
At 30 June 2005	18,652	(4,903)	(174)	(1,856)	(286)	11,433
Exchange realignment	52	–	28	(72)	(8)	–
Credit to income statement for the year	2,595	4,282	–	1,563	101	8,541
At 30 June 2006	21,299	(621)	(146)	(365)	(193)	19,974

For the purpose of balance sheet presentation, the above deferred tax assets and liabilities have been offset.

	2006 HK\$'000	2005 HK\$'000
Deferred tax liabilities	19,974	11,453
Deferred tax assets	–	(20)
	19,974	11,433

At 30 June 2006, the Group has unused tax losses of HK\$21,876,000 (2005: HK\$72,742,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$1,241,000 (2005: HK\$28,844,000) of such tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The tax losses of HK\$11,884,000 may be carried forward indefinitely and the remaining of HK\$9,992,000 can be carried forward for a maximum of five years.

29. Derivative Financial Assets (Liabilities)

	2006	
	Assets HK\$'000	Liabilities HK\$'000
Copper future contracts	5,754	–
Interest rate swap	–	(803)
Foreign exchange forward contracts	309	(675)
	6,063	(1,478)

Copper future contracts

At 30 June 2006, the fair value of copper future contracts of the Group which had not been designated as hedging instruments amounting to HK\$5,754,000 was recognised as current assets in the balance sheet and the major terms of the outstanding contracts were as follows:

	As at 30 June 2006	As at 1 July 2005
Quantities (in tonnes)	625	10,525
Average price per tonne	7,120	3,231
Delivery period	From August 2006 to October 2006	From July 2005 to January 2006
Fair value gain of copper future contracts (HK\$'000)	5,754	4,455

Interest rate swap

Notional amount	Maturity	Swap	Fair value loss as at	
			30 June 2006 HK\$'000	1 July 2005 HK\$'000
USD5,000,000	13 September 2009	Receive structured rate	(803)	(3,082)
		Pay floating rate		

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

29. Derivative Financial Assets (Liabilities) (continued)

Forward foreign exchange contracts

Major terms of the forward foreign exchange contracts are as follows:

At 30 June 2006

Notional amount	Last expiration dates	Contracted exchange rates	Fair value gain (loss) as at 30 June 2006	
			HK\$'000	HK\$'000
US\$500,000/month	15 January 2007	HK\$7.73/US\$1	36	–
US\$300,000/month	25 May 2007	HK\$7.73/US \$1	–	(62)
US\$1,000,000/month	5 December 2006	HK\$7.758/US\$1	–	(101)
US\$1,000,000/month	5 July 2007	HK\$7.738/US\$1	–	(305)
US\$500,000/month	17 January 2007	HK\$7.728/US\$1	259	–
US\$500,000/month	2 May 2007	HK\$7.73/US\$1	14	–
US\$1,000,000/month	6 March 2007	HK\$7.725/US\$1	–	(113)
US\$1,000,000/month	19 September 2007	HK\$7.7295/US\$1	–	(94)
			309	(675)

Notional amount	Last expiration dates	Contracted exchange rates	Fair value gain (loss) as at 1 July 2005	
			HK\$'000	HK\$'000
US\$1,000,000/month	5 October 2005	HK\$7.75/US\$1	68	–
US\$1,000,000/month	5 December 2006	HK\$7.758/US\$1	–	(466)
US\$500,000	27 October 2005	HK\$7.694/US\$1	35	–
US\$1,000,000/month	3 February 2006	HK\$7.712/US\$1	308	–
US\$2,000,000	5 August 2005	HK\$7.7777/US\$1	–	(18)
US\$2,000,000	5 September 2005	HK\$7.7695/US\$1	–	(6)
			411	(490)

The above derivatives are measured at fair value at each balance sheet dates. Their fair values are determined based on the valuations provided by bankers at the balance sheet date.

30. Convertible Notes and Derivatives Financial Instruments

	2006 HK\$'000	2005 HK\$'000
Amortised cost of the debts component of convertible notes	66,068	—
Fair value of conversion option	12,492	—
	78,560	—

On 9 May 2006, the Company entered into subscription agreements with 8 investors, which are third parties independent of the Company for the issue of zero-coupon convertible notes with the maturity date being the first business day after the second anniversary from the date of issue. The aggregate principal amount of the convertible notes is US\$10,000,000 (equivalent to HK\$77,600,000). The subscribers are entitled to convert the convertible notes commencing on and excluding the 14th day after the issue date up to and including the date which is 14 days prior to the maturity date. In the event that the average closing price for any 30 consecutive dealing days representing 150% or more of the conversion price, the outstanding principal amount of the convertible notes will be mandatorily converted into the ordinary shares of the Company at the conversion price of HK\$1.1 per share. The Company is required to redeem the convertible notes at its face value for the outstanding principal amount of the convertible notes which have not been converted on maturity.

During the period, none of the investors have converted the convertible notes.

The conversion options were fair valued by a professional valuer at the date of grant and the balance sheet date and there is no change in the fair value of the embedded derivatives during the period. The valuer has adopted discounted cash flow approach by applying a discount rate of 8.81% to arrive at the fair value of the debts component of the convertible notes and adopted the Black-Scholes option pricing model in measuring the fair value of the conversion option. Based on the valuation report, the valuers have taken into account of the effect of forced conversion and the dilution effect. Key parameters adopted in the valuations include volatility of 85% as at the date of valuation, which was generated from Bloomberg by taking into account the 180 days historical ordinary share prices of the Company before the date of valuation, and the risk free rate for 2 years exchange funds notes of 4.15% issued by the Hong Kong Monetary Authority at the date of valuation.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

31. Share Capital

	Number of shares		Share capital	
	2006 '000	2005 '000	2006 HK\$'000	2005 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised	30,000,000	30,000,000	300,000	300,000
Issued and fully paid				
At beginning of the year/period	392,364	272,974	3,924	2,730
Shares repurchase during the year	(300)	–	(3)	–
Placements of new shares	93,000	119,390	930	1,194
At end of the year/period	485,064	392,364	4,851	3,924

In prior period, pursuant to two subscription agreements entered into between the Company and Chau's Family 1996 Limited, 54,000,000 ordinary shares of HK\$0.01 each and 65,390,000 ordinary shares of HK\$0.01 each in the Company were issued at a price of HK\$0.27 per share and HK\$0.28 per share respectively. All the new shares issued rank pari passu in all respects with the then existing shares. Details of these transactions were set out in the Company's announcements dated 17 June 2004 and 24 May 2005 respectively.

During the year, the Company repurchased 300,000 of its own shares of HK\$0.01 each through the Stock Exchange of Hong Kong Limited at a price of HK\$0.83 per share. The aggregate consideration paid by the Company was HK\$250,000. 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.

During the year, pursuant to the subscription agreement entered into between the Company and Chau's Family 1996 Limited, 93,000,000 ordinary shares of HK\$0.01 each in the Company were issued at a price of HK\$1 per share. All the new shares issued rank pari passu in all respects with the then existing shares. Details of these transactions were set out in the Company's circular dated 17 May 2006.

32. Acquisition of Subsidiaries

In August 2004, the Company subscribed for 8,000,000,000 ordinary shares of HK\$0.01 each of FT Holdings. The consideration was satisfied by injection for the Group's interest in certain companies (the "Copper Group") and plant and machinery and land and buildings engaging in manufacture and trading of copper rods and related products. Immediately after the completion of the transaction, the Group's interest in FT Holdings was 75.5%. In order to maintain the sufficiency of public float of FT Holdings, the Company disposed of 57,562,500 shares of FT Holdings to third parties at a consideration of HK\$2,307,000, resulting in a gain on disposal of HK\$797,000 which has been included in other income.

32. Acquisition of Subsidiaries (continued)

The effect of acquisition of FT Holdings and its subsidiaries is summarised as follows:

	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
NET ASSETS ACQUIRED			
Property, plant and equipment	57,823	–	57,823
Prepaid lease payments for land	16,800	–	16,800
Television programmes and sub-licensing rights	3,509	–	3,509
Inventories	18,363	(200)	18,163
Debtors, deposits and prepayments	8,328	–	8,328
Pledged deposits	5,000	–	5,000
Bank balances and cash	41,546	–	41,546
Creditors and accrued charges	(19,780)	–	(19,780)
Bills payable	(7,769)	–	(7,769)
Taxation	(460)	–	(460)
Obligations under finance leases	(309)	–	(309)
Borrowings	(14,472)	–	(14,472)
	108,579	(200)	108,379
Goodwill			16,212
Minority interests			(26,553)
Total consideration			98,038
Satisfied by:			
Disposal of 24.5% interests in the Copper Group			47,900
Cash paid for expenses related to acquisition			36,904
Expenses payable related to acquisition			13,234
Total consideration			98,038
Net cash inflow arising on acquisition:			
Cash paid for expenses related to acquisition			(36,904)
Bank balances and cash acquired			41,546
Net inflow of cash and cash equivalents in respect of the acquisition			4,642

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

32. Acquisition of Subsidiaries (continued)

The goodwill arising on acquisition is attributable to the anticipated profitability of the distribution of the Group's life-like plants in the new markets.

The recoverable amount of the operation was determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. Management estimated discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the operation. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future change in market.

The Group prepared cash flow forecasts derived from the most recent financial budgets for the next financial year approved by management and further extrapolated for the next four years based on an estimated steady growth rate of 3%. This rate did not exceed the average long-term growth rate for the relevant markets. The rate used to discount rate forecast cash flow was 5%.

However, the estimated cash flow forecasts of the operation prepared by the management indicated that the attributable goodwill amounted to HK\$16,212,000 had been fully impaired in the income statement.

The subsidiaries acquired during the prior period contributed HK\$42,964,000 to the Group's turnover and HK\$26,000 to the Group's profit from operation after the acquisition.

If the acquisition had been completed on 1 April 2004, the Group's turnover for the prior period and loss for the prior period would have been approximately HK\$1,480 million and HK\$24 million respectively. The financial information was for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2004, nor is it intended to be a projection of future results.

33. Disposal of Subsidiaries

In April 2005, the Group disposed of its entire equity interests in FT Holdings Limited and FT Properties Limited. The net assets of these subsidiaries at the date of disposal were as follows:

	HK\$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	18,450
Debtors, deposits and prepayments	70
Bank balances and cash	15
Accrued charges	(10)
Taxation	(23)
	<u>18,502</u>
Loss on disposal	<u>(7,502)</u>
Total consideration	<u>11,000</u>
SATISFIED BY	
Cash consideration	<u>11,000</u>
Net cash inflow arising on disposal:	
Cash consideration	11,000
Bank balances and cash disposed of	<u>(15)</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>10,985</u>

The subsidiaries disposed of in the prior period did not have any significant impact on the Group's cash flows or operating results.

34. Deemed Disposal of a Subsidiary/Discount on Acquisition of Subsidiaries

During the year, a subsidiary of the Company, Skywalk Assets Management Limited ("Skywalk") entered into agreements to place and subscribe for new shares in the listed subsidiary, Hua Yi Copper Holdings Limited ("Hua Yi Copper"). Pursuant to the agreements, Skywalk has agreed to place 111,000,000 ordinary shares of HK\$0.2 each in Hua Yi Copper at a price of HK\$0.88 per share and to subscribe for 111,000,000 new ordinary shares of Hua Yi Copper at a price of HK\$0.88 per share. Accordingly, the Group's interest in Hua Yi Copper has been diluted from 71.49% to 59.59%, resulting in a gain on deemed disposal of HK\$19,576,000.

During the year, the Company has acquired 3,478,000 shares of Hua Yi Copper from the market at a total consideration of HK\$1,607,000 and the Group's interest in Hua Yi Copper has been increased from 59.59% to 60.05%, resulting in a discount on acquisition of HK\$892,000.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

35. Capital Commitments

	2006 HK\$'000	2005 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of:		
Leasehold improvements	4,230	18,561
Plant and machinery	35,037	9,266
	39,267	27,827

36. Lease Commitments

The Group as lessee

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

	2006 HK\$'000	2005 HK\$'000
Within one year	4,081	5,098
In the second to third year inclusive	2,533	3,467
	6,614	8,565

Leases are negotiated for an average term of three years and rentals are fixed for such term.

37. Pledge of Assets

At 30 June 2006, the Group has pledged certain of its assets with carrying values of HK\$196,501,000 (2005: HK\$212,263,000) to secure general banking facilities granted to the Group. The carrying values of these assets are analysed as follows:

	2006 HK\$'000	2005 HK\$'000
Property, plant and equipment	118,709	150,754
Fixed bank deposits	67,180	48,331
Trade debtors	10,612	13,178
	196,501	212,263

38. Share Option Schemes

The Company

The Company's share option scheme was adopted pursuant to a resolution passed on 16 September 2002 (the "Share Option Scheme") for the primary purpose of providing incentives to directors and eligible employees, and will expire on 15 September 2012. Under the Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors, of the Company and any of its subsidiaries, associates and jointly controlled entities to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties with a view to maintain business relationship with such persons.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The total number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant together with a payment of HK\$1 as consideration of grant. Options may be exercised at any time from the date of grant to the tenth anniversary of the date of the grant. The exercise price is determined by the directors of the Company, will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five trading days immediately preceding the date of grant, and the nominal value of a share.

The following table discloses movements in the Company's Share Option Scheme during the year:

Capacity	Date of grant	Exercisable period	Vesting period	Exercise price HK\$	Number of share options			Exercisable period	Number of share options exercisable for the period
					Outstanding at 1.7.2005	Granted during the year	Outstanding at 30.6.2006		
Others	26 May 2005	26 May 2005 to 25 May 2008	Fully vested at date of grant	0.32	18,950,000	–	18,950,000	26 May 2005 to 25 May 2008	18,950,000
Others	5 January 2006	1 February 2006 to 31 January 2009	5 January 2006 to 1 February 2006 5 January 2006 to 1 February 2007 5 January 2006 to 1 February 2008	0.24	–	39,230,000	39,230,000	1 February 2006 to 31 January 2007 1 February 2007 to 31 January 2008 1 February 2008 to 31 January 2009	13,076,667 13,076,667 13,076,666

Total consideration received during the period for taking up the options granted amounted to HK\$2 (period ended 30 June 2005: HK\$2).

During the year, options were granted on 5 January 2006. The estimated fair values of options granted on that date are HK\$3,204,000.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

38. Share Option Schemes (continued)

The Company (continued)

In prior years, the financial impact of share options granted was not recorded in the financial statements until such time as the options are exercised, and no charge was recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued were recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Upon the application of HKFRS 2 (see note 2), the fair value of share options granted to directors and employees of the Group, determined at the date of grant of the shares options, is expensed over the vesting period.

These fair values were calculated using the binominal model. The inputs into the model were as follows:

Date of grant	26 May 2005	5 January 2006
Share price on the date of grant	HK\$0.31	HK\$0.23
Exercise price	HK\$0.32	HK\$0.24
Expected volatility	84%	76% p.a.
Average expected life	1.5 years	1.07 to 3.07 years
Average risk-free rate	3.141% p.a.	3.78% to 3.923% p.a.
Expected dividend yield	Nil	Nil

Expected volatility was determined by using the historical volatility of the Company's share price during the period from December 2005 to January 2006. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Hua Yi Copper

On 4 December 2003, Hua Yi Copper adopted a new share option scheme (the "Hua Yi New Share Option Scheme") which replaced its old share option scheme adopted in 1996 (the "Hua Yi Old Share Option Scheme"). The Hua Yi Old Share Option Scheme will remain in force until it expires on 2 January 2007.

Under the Hua Yi New Share Option Scheme, the directors may, at their discretion, grant to full-time employees and executive directors of Hua Yi Copper and its subsidiaries, the right to take up options to subscribe for shares of the Hua Yi Copper. Additionally, Hua Yi Copper may, from time to time, grant share options to outside third parties for services provided to the Hua Yi Copper. The Hua Yi New Share Option Scheme, unless otherwise cancelled or amended, will expire on 3 December 2013. The subscription price of options is subject to a minimum which is the higher of the nominal value of a share, the closing price of the shares on the Stock Exchange on the date of grant and the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options.

The maximum number of unexercised share options permitted to be granted under the Hua Yi New Share Option Scheme must not exceed 10% of the shares of Hua Yi Copper in issue at any time. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Hua Yi New Share Option Scheme exceeding 30% of the aggregate number of shares subject to the Hua Yi New Share Option Scheme, at the time it is proposed to grant the relevant option to such person.

The acceptance of an option, if accepted, must be made within 21 days from the date of the offer of the grant with a non-refundable payment of HK\$1 from the grantee to Hua Yi Copper.

38. Share Option Schemes (continued)

Hua Yi Copper (continued)

The total number of shares issued and to be issued upon exercise of options granted to each participant (including exercised, cancelled and outstanding options) in 12-month period must not exceed 1% of the shares in issue from time to time unless the same is approved by the shareholders.

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

The following table discloses movements in Hua Yi New Share Option Scheme during the year:

For the year ended 30 June 2006

Capacity	Date of grant	Exercisable period	Vesting period	Exercise price HK\$	Outstanding at 1.7.2005	Number of share options			Outstanding at 30.6.2006	Exercisable period	Number of share options exercisable for the period
						Granted during the year	Exercised during the year	Cancelled during the year			
Employees	1 April 2005	1 April 2005 to 31 March 2008	Vested at date of grant	0.87	1,600,000	–	–	(1,600,000)	–	1.4.2005 to 31.3.2006	1,200,000
										1.4.2006 to 31.3.2007	1,400,000
										1.4.2007 to 31.3.2008	1,600,000
Employees	1 April 2005	1 April 2005 to 31 March 2007	1 April 2005 to 1 April 2006	0.87	1,500,000	–	–	(1,500,000)	–	1.4.2005 to 31.3.2006	750,000
			1 April 2005 to 1 April 2006							1.4.2006 to 31.3.2007	1,500,000
			1 April 2005 to 1 April 2007							1.4.2007 to 31.3.2008	1,500,000
Others	1 April 2005	1 April 2005 to 31 March 2008	1 April 2005 to 1 April 2007	0.87	9,856,000	–	–	(9,856,000)	–	1.4.2005 to 31.3.2006	9,856,000
			1 April 2005 to 1 April 2006							1.4.2006 to 31.3.2007	9,856,000
			1 April 2005 to 1 April 2007							1.4.2007 to 31.3.2008	9,856,000

Notes to the Financial Statements (continued)

For the year ended 30 June 2006

38. Share Option Schemes (continued)

For the year ended 30 June 2006 (continued)

Capacity	Date of grant	Exercisable period	Vesting period	Exercise price HK\$	Outstanding at 1.7.2005	Number of share options				Outstanding at 30.6.2006	Exercisable period	Number of share options exercisable for the period
						Granted during the year	Exercised during the year	Cancelled during the year				
Employees	9 December 2005	1 January 2006 to 31 December 2008	9 December 2005 to 1 January 2006 9 December 2005 to 1 January 2007 9 December 2005 to 1 January 2008	0.275	–	3,000,000	(664,000)	–	2,336,000	1.1.2006 to 31.12.2006 1.1.2007 to 31.12.2007 1.1.2008 to 31.12.2008	336,000 1,000,000 1,000,000	
Others	9 December 2005	1 January 2006 to 31 December 2008	9 December 2005 to 1 January 2006 9 December 2005 to 1 January 2007 9 December 2005 to 1 January 2008	0.275	–	12,000,000	–	–	12,000,000	1.1.2006 to 31.12.2006 1.1.2007 to 31.12.2007 1.1.2008 to 31.12.2008	4,000,000 4,000,000 4,000,000	
Others	6 April 2006	1 May 2006 to 30 April 2011	6 April 2006 to 1 May 2006 6 April 2006 to 1 May 2007 6 April 2006 to 1 May 2008 6 April 2006 to 1 May 2009 6 April 2006 to 1 May 2010	0.495	–	51,000,000	–	–	51,000,000	1.5.2006 to 30.4.2007 1.5.2007 to 30.4.2008 1.5.2008 to 30.4.2009 1.5.2009 to 30.4.2010 1.5.2010 to 30.4.2011	10,200,000 10,200,000 10,200,000 10,200,000 10,200,000	
Total					12,956,000	66,000,000	(664,000)	(12,956,000)	65,336,000			

38. Share Option Schemes (continued)

For the year ended 30 June 2006 (continued)

Capacity	Date of grant	Exercisable period	Vesting period	Adjusted exercise price HK\$	Number of share options		
					Balance at 1.7.2005	Lapsed during the year	Balance at 30.6.2006
Employees	7 March 1997	7 March 1997 to 6 March 2007	Fully vested at date of grant	14.112	200,000	(200,000)	–
					200,000	(200,000)	–

Total consideration received during the period for taking up the options granted amounted to HK\$11 (period ended 30 June 2005: HK\$10).

During the year, options were granted on 9 December 2005 and 6 April 2006. The estimated fair value of options granted on those date are HK\$1,225,000 and HK\$6,987,000 respectively.

39. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees.

Pursuant to the PRC Government regulations, the Group is required to contribute to a central pension scheme in respect of certain of the Group's employees in the PRC based on 10% to 24.5% of the salaries of those employees and there is no forfeited contributions under the central pension scheme.

The retirement benefits cost charged to income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

During the year, the Group made retirement benefits schemes contributions of HK\$3,713,000 (period ended 30 June 2005: HK\$4,380,000).

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

40. Company's Balance Sheet

	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSET		
Investments in subsidiaries	1	1
CURRENT ASSETS		
Deposits and prepayments	6,071	676
Amounts due from subsidiaries	884,363	803,381
Bank balances and cash	80,284	630
	970,718	804,687
CURRENT LIABILITIES		
Accrued charges	1,227	1,327
Amounts due to subsidiaries	14	14
Conversion option of convertible notes	12,492	–
	13,733	1,341
NET CURRENT ASSETS	956,985	803,346
TOTAL ASSETS LESS CURRENT LIABILITIES	956,986	803,347
NON-CURRENT LIABILITY		
Convertible notes	66,068	–
	890,918	803,347
CAPITAL AND RESERVES		
Share capital	4,851	3,924
Reserves	886,067	799,423
	890,918	803,347

41. Related Party Transaction

Compensation of key management

The key management of the Group comprises all directors and the two highest paid employees, details of their remuneration are disclosed in note 9.

42. Post Balance Sheet Events

On 30 May 2006, the Company entered into a purchase agreement to acquire the entire equity interest in Brascabos Componentes Elétricos e Eletrônicos Ltda, which is engaged in the manufacture of power cords, wire harness, electronic controls and sensor devices in Brazil at a consideration of USD10 million. The transaction has been completed on 2 August 2006 and the details of the transaction were set out in the circular dated 26 June 2006. The directors consider that it is impractical to disclose the fair values of the net assets acquired and the goodwill at the date of completion of the transaction in view of the short period of time since the date of completion of the transaction.

43. Particular of Principal Subsidiaries

The following list contains only the particulars of the subsidiaries at 30 June 2006 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length.

Name of company	Place of incorporation or registration/ operation	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital or registered capital held by the Group	Principal activities
Brightpower Assets Management Limited	British Virgin Islands	US\$1	100%	Investment holding
Chau's Electrical (BVI) Company Limited	British Virgin Islands/PRC	US\$1	100%	Property holding
Chau's Electrical Company Limited	Hong Kong	HK\$1,000 ordinary HK\$500,000 non-voting deferred (Note 1)	100% —	Manufacture and trading of cable and wire products
Chau's Electrical International, Inc.	United States of America	US\$20,000	100%	Trading
Chau's Industrial Investments Limited	British Virgin Islands	US\$1,000	100%	Investment holding
Citigain Industrial Limited	Hong Kong	HK\$1,000	100%	Investment holding
Crown Earth Investments Limited	Hong Kong/ PRC	HK\$100	100%	Property holding
東莞華藝銅業有限公司 Dongguan Hua Yi Brass Products Co., Ltd. #	PRC	US\$9,850,000 (Note 2)	100%	Manufacture and trading of copper products

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2006

43. Particular of Principal Subsidiaries (continued)

Name of company	Place of incorporation or registration/ operation	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital or registered capital held by the Group	Principal activities
東莞橋梓周氏電業有限公司 Dongguan Qiaozhi Chau's Electrical Co., Ltd.#	PRC	HK\$5,000,000 (Note 3)	100%	Manufacture and trading of cable and wire products
東莞聯藝塑膠製品有限公司 Dongguan United Art Plastic Products Limited*	PRC	HK\$49,000,000 (Note 4)	100%	Manufacture of life-like Christmas trees
東莞新寶精化有限公司 Dongguan Xin Bao Precision Chemical Co., Ltd. *	PRC	HK\$45,000,000	85%	Manufacture and trading of chemical products
FT China Limited	Hong Kong	HK\$2	100%	Manufacture of life-like decorative plants
FT Far East Limited	Hong Kong	HK\$2	100%	Trading of life-like decorative plants
FT Multi-Media Limited	British Virgin Islands/PRC	US\$10,000	60%	Production, acquisition and distribution of television programmes and provision of related multi-media services
Gosberton Assets Limited	British Virgin Islands	US\$1	100%	Holding of trademarks
Hua Yi Copper Holdings Limited	Bermuda	HK\$133,427,700	60.05%	Investment holding
Hua Yi Copper Products Company Limited	Hong Kong	HK\$5,000,000	100%	Manufacture and trading of copper products
昆山周氏電業有限公司 Kunshan Chaus' Electrical Company Limited#	PRC	US\$2,880,500	100%	Manufacture and trading of cable and wire products
昆山華藝銅業有限公司 Kunshan Hua Yi Copper Products Company Limited#	PRC	US\$5,000,000	100%	Manufacture and trading of copper products

43. Particular of Principal Subsidiaries (continued)

Name of company	Place of incorporation or registration/ operation	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital or registered capital held by the Group	Principal activities
上海周氏電業有限公司 Shanghai Chau's Electrical Co., Ltd. *	PRC	US\$2,500,000	65%	Manufacture and trading of cable and wire products
Solartech Investments Limited	British Virgin Islands	US\$1	100%	Investment holding
Stocko Electronics Asia Pacific Pte Ltd	Singapore	S\$100,000	90.5%	Trading in wire harness and connectors
TEM Electronics (M) Sdn. Bhd.	Malaysia	RM500,000	100%	Manufacture of wire harness and connectors
Wah Yeung Capital Resources Limited	British Virgin Islands	US\$1	100%	Investment holding
Yellowstone Assets Limited	British Virgin Islands	US\$1	100%	Investment holding

* Equity joint venture

Wholly foreign owned enterprise

Notes:

- The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.
- Prior to January 2004, Dongguan Hua Yi was an equity joint venture with a registered capital of US\$9,850,000. The Group has solely contributed all the registered capital of Dongguan Hua Yi. No contribution was made by the PRC joint venture partner and accordingly the Group was entitled to the entire profit or loss of Dongguan Hua Yi. Pursuant to a supplemental agreement dated 5 August 2003, the PRC joint venture partner agreed to surrender its ownership in Dongguan Hua Yi to the Group at no consideration. The transfer has been approved by the PRC relevant authority and Dongguan Hua Yi became a wholly foreign owned enterprise since January 2004.
- Dongguan Qiaozi Chau's Electrical Co., Ltd. ("Qiaozi Chau's") was established by the Group with an independent Chinese party in the PRC. Under the management agreement with the Chinese party, the Group was responsible for all of the assets and liabilities of the joint venture and is entitled to the profit derived from its operations after the payment of a fixed amount as management fee to the Chinese party each year. During the year, the PRC joint venture partner agreed to surrender its ownership in Qiaozi Chau's to the Group at no consideration. The transfer has been approved by the PRC relevant authority and Qiaozi Chau's became a wholly foreign owned enterprise since January 2006.
- Pursuant to a joint venture agreement dated 8 September 1993 (the "Joint Venture Agreement") entered into between FT China Limited and a party in PRC, FT China Limited held a 75% equity interest in Dongguan United Art Plastic Products Limited ("DUAP").

On 28 March 1996, the relevant PRC authorities approved the increase of the equity interest held by FT China Limited in DUAP from 75% to 90%, pursuant to an agreement signed between FT China Limited and the PRC joint venture partner on 22 March 1996. Following the approval of this agreement, the PRC joint venture partner is entitled to a 10% share of the assets and liabilities of DUAP.

Pursuant to the Joint Venture Agreement, the PRC joint venture partner agreed to waive its entitlement to share in the profits and losses of DUAP in return for an annual management fee of HK\$55,556. Pursuant to a supplemental agreement to the Joint Venture Agreement, all of the assets of DUAP will be assigned to FT China Limited upon the expiry of the Joint Venture Agreement. Accordingly, all assets, liabilities and the operating results of DUAP are consolidated into these financial statements as if it is a wholly-owned subsidiary of the Group.

- Except for Chau's Industrial Investments Limited, all the subsidiaries are indirectly held by the Company.

None of the subsidiaries had issued any debt securities at the end of the year.