1. CORPORATE INFORMATION

Oriental Explorer Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively, the "Group") were involved in the following principal activities:

- trading of steel; and
- manufacturing and trading of electronic products.

In the opinion of the directors, the holding company of the Company is Limitless Investment Limited, which is incorporated in the British Virgin Islands, and the ultimate holding company of the Company is Power Resources Holdings Limited, which is incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). They have been prepared under the historical cost convention, except for available-for-sale investments and equity investments at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

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

(c) **HKFRS-Int 4** *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The Group has determined based on this interpretation that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 *Leases*. However, the adoption of this interpretation has had no material impact on these financial statements.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2–Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires disclosures of the information about the entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008 respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

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

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

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

Property, plant and equipment and depreciation

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

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

Buildings	5%
Leasehold improvements	Over the lease terms
Plant and machinery	10% - 20%
Furniture, fixtures, office and computer equipment	20% - 33⅓%
Motor vehicles	20% - 25%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading or these financial assets are recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contact is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

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

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions (continued)

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

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

The Group has adopted the transitional provision of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Retirement benefits scheme

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

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

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group operates mainly in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars, Japanese Yen and Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's risk management policy is to have the liquid assets mainly denominated in Hong Kong dollars, United States dollars and Renminbi.

3. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the balance sheet either as available-for-sale investments or as investments at fair value through profit or loss. The Group manages this exposure by maintaining a portfolio of investments with different risk profiles.

(iii) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations. However, the Group will constantly review the economic situation and its interest rate risk profile, and will consider appropriate hedging measures in the future as may be necessary.

(iv) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. It has policies in place to ensure that credits are granted to customers with an appropriate credit history. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure adequate impairment losses are made for irrecoverable amounts.

The credit risk of the Group's other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and equity-linked notes arises from default of the counterparty, with maximum exposure equal to the carrying amounts of these instruments.

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

(v) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

3. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying values less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

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

Fair values of financial instruments

Financial instruments such as equity, debt and derivative instruments are carried at the balance sheet at fair value. The best evidence of fair value is quoted prices in an active market, where quoted prices are not available for a particular financial instrument, the Group uses the market values determined by independent financial institutions or internal or external valuation models to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgement by management, which may result in significantly different fair values and results.

Impairment of trade receivables

Provision for doubtful debts is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

Impairment of property, plant and equipment

The carrying value of the property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable in accordance with the accounting policies as disclosed at section 2.4. The recoverable amount of the property, plant and equipment is the greater of fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the steel trading segment is a supplier of steel products mainly for use in construction and other heavy industries;

(b) the electronic products segment is a supplier of electronic components mainly for use in the manufacture of electronic products; and

(c) the corporate and other segment.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

5. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group	Steel trading		Electronic products		Corporate and others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**—**	1,143,393	**16,464**	7,434	**—**	—	**16,464**	1,150,827
Segment results	**139**	3,835	**(1,462)**	(1,880)	**(2,382)**	1,231	**(3,705)**	3,186
Other income and gains							**40,920**	9,923
Unallocated expenses							**(35,146)**	(2,946)
Finance costs							**(381)**	(336)
Share of profits and losses of associates							**2,049**	1,470
Profit before tax							**3,737**	11,297
Tax							**—**	(734)
Profit for the year							**3,737**	10,563

5. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group	Steel trading		Electronic products		Corporate and others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**69**	18,112	**5,530**	5,136	**110,936**	45,335	**116,535**	68,583
Unallocated assets	**—**	—	**—**	—	**—**	—	**195,510**	199,540
Interests in associates	**—**	—	**—**	—	**—**	—	**90,614**	84,801
Total assets	**69**	18,112	**5,530**	5,136	**110,936**	45,335	**402,659**	352,924
Segment liabilities	**3,028**	3,981	**4,925**	4,335	**47,620**	4,675	**55,573**	12,991
Unallocated liability – Tax payable	**2,273**	—	**52**	—	**3,013**	—	**5,338**	5,338
Total liabilities	**5,301**	3,981	**4,977**	4,335	**50,633**	4,675	**60,911**	18,329
Other segment information:								
Depreciation	**—**	—	**100**	201	**323**	258	**423**	459
Other non-cash expenses	**—**	—	**—**	—	**—**	8	**—**	8
Capital expenditure	**—**	—	**80**	23	**282**	543	**362**	566

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group	Hong Kong		Mainland China		Thailand		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**16,464**	7,434	**—**	—	**—**	1,143,393	**16,464**	1,150,827
Other segment information:								
Segment assets	**267,410**	175,417	**135,249**	177,507	**—**	—	**402,659**	352,924
Capital expenditure	**282**	543	**80**	23	**—**	—	**362**	566

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

	2006	2005
	HK$'000	*HK$'000*
Revenue		
Trading of steel	**—**	1,143,393
Manufacturing and trading of electronic products	**16,464**	7,434
	16,464	1,150,827
Other income and gains		
Interest income from available-for-sale investments	**2,365**	1,513
Interest income from equity-linked notes	**11,981**	—
Other interest income	**1,417**	2,012
Dividend income from listed investments	**3,277**	3,174
Reversal of provision for impairment of interest in an associate	**—**	2,116
Fair value gains, net:		
Available-for-sale investments (transfer from equity)	**492**	—
Equity investments at fair value through profit or loss	**21,388**	1,108
	40,920	9,923
	57,384	1,160,750

7. PROFIT BEFORE TAX

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

	2006	2005
	HK$'000	*HK$'000*
Cost of inventories sold	**12,593**	1,121,317
Depreciation of owned assets	**423**	459
Minimum lease payments under operating leases for land and buildings	**633**	611
Auditors' remuneration	**250**	250
Fair value losses, net:		
Equity-linked notes	**35,146**	—
Loss on disposal of items of property, plant and equipment	**15**	—
Foreign exchange differences, net	**(467)**	(448)
Employee benefits expenses, including directors' remuneration (note 9):		
Salaries and allowances	**4,773**	4,675
Pension scheme contributions (Note (i))	**76**	91
	4,849	4,766

Note:

(i) As at 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

8. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on discounted bills	**—**	336
Interest on other loans	**358**	—
Interest on bank borrowings wholly repayable within five years	**23**	—
	381	336

9. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2006	2005
	HK$'000	*HK$'000*
Short-term employee benefits	**2,827**	3,158
Post-employment benefits	**58**	48
	2,885	3,206

(a) Directors' remuneration

The remuneration of every director of the Company for the year ended 31 December 2006 is set out below:

	Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Lau Chi Yung, Kenneth	—	950	12	962
Mr. Lau Michael Kei Chi	—	—	—	—
Independent non-executive directors				
Mr. Choy Tak Ho	60	—	—	60
Mr. Lo Yick Wing	60	—	—	60
Mr. Wong Yim Sum	60	—	—	60
	180	950	12	1,142

The remuneration of every director of the Company for the year ended 31 December 2005 is set out below:

	Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Lau Chi Yung, Kenneth	350	650	12	1,012
Mr. Lau Michael Kei Chi	500	—	—	500
Independent non-executive directors				
Mr. Choy Tak Ho	60	—	—	60
Mr. Lo Yick Wing	60	—	—	60
Mr. Wong Yim Sum	60	—	—	60
	1,030	650	12	1,692

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

9. COMPENSATION TO KEY MANAGEMENT PERSONNEL *(continued)*

(b) Five highest paid employees

The five highest paid employees during the year included one (2005: two) director, details of whose remuneration are set out in note 9(a) above. Details of the remuneration of the remaining four (2005: three) non-director, highest paid employees for the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,697**	1,478
Pension scheme contributions	**46**	36
	1,743	1,514

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**4**	3

(c) During the year ended 31 December 2006, no emoluments were paid by the Group to the directors of the Company and the five highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Charge for the year	**—**	734
Current tax – Mainland China		
Charge for the year	**—**	—
Total tax charge for the year	**—**	734

10. TAX *(continued)*

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Profit before tax	**3,737**	11,297
Tax at applicable tax rate	**148**	1,517
Income not subject to tax	**(7,307)**	(2,394)
Expenses not deductible for tax	**6,340**	994
Tax losses not recognised	**653**	479
Others	**166**	138
Tax charge at the Group's effective rate	**—**	734

The share of tax attributable to associates amounting to approximately HK$395,000 (2005: HK$400,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

The Group's tax losses of approximately HK$167,026,000 (2005: HK$162,534,000) are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a profit of approximately HK$37,000 (2005: loss of approximately HK$225,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of approximately HK$3,737,000 (2005: HK$10,563,000) and the weighted average number of 1,800,000,000 (2005: 1,800,000,000) ordinary shares in issue during the year.

Diluted earnings per share, reflecting the exercise of subscription rights under the share options granted pursuant to the Company's share option schemes, have not been presented because the share options had no dilutive effects for both the years ended 31 December 2006 and 2005.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improve-ments	Plant and machinery	Furniture, fixtures, office and computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2006						
As at 31 December 2005 and 1 January 2006						
Cost	746	2,926	38,017	5,288	1,920	48,897
Accumulated depreciation	(373)	(2,926)	(37,881)	(5,236)	(806)	(47,222)
Net carrying amount	373	—	136	52	1,114	1,675
As at 1 January 2006, net of accumulated depreciation	373	—	136	52	1,114	1,675
Additions	—	—	68	24	270	362
Depreciation provided for the year	(37)	—	(74)	(27)	(285)	(423)
Disposals	—	—	—	—	(215)	(215)
As at 31 December 2006, net of accumulated depreciation	336	—	130	49	884	1,399
As at 31 December 2006						
Cost	746	2,926	38,085	5,312	1,942	49,011
Accumulated depreciation	(410)	(2,926)	(37,955)	(5,263)	(1,058)	(47,612)
Net carrying amount	336	—	130	49	884	1,399

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures, office and computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2005						
As at 1 January 2005						
Cost	746	2,926	37,994	5,288	1,677	48,631
Accumulated depreciation	(336)	(2,917)	(37,717)	(5,206)	(887)	(47,063)
Net carrying amount	410	9	277	82	790	1,568
As at 1 January 2005, net of accumulated depreciation	410	9	277	82	790	1,568
Additions	—	—	23	—	543	566
Depreciation provided for the year	(37)	(9)	(164)	(30)	(219)	(459)
As at 31 December 2005, net of accumulated depreciation	373	—	136	52	1,114	1,675
As at 31 December 2005						
Cost	746	2,926	38,017	5,288	1,920	48,897
Accumulated depreciation	(373)	(2,926)	(37,881)	(5,236)	(806)	(47,222)
Net carrying amount	373	—	136	52	1,114	1,675

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount as at 1 January	**484**	493
Recognised during the year	**(8)**	(9)
Carrying amount as at 31 December	**476**	484

The Group's leasehold land as at 31 December 2006 is situated in the PRC and is held under long term leases.

15. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**136,380**	136,380
Provision for impairment	**(88,480)**	(88,480)
	47,900	47,900

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of these amounts due from subsidiaries approximate their fair values.

Particulars of the principal subsidiaries as at 31 December 2006 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Linkful (Holdings) Limited	Hong Kong	Ordinary HK$1,000 Non-voting deferred HK$20,000,000	—	100	Investment holding
Linkful Metals Trading Limited	British Virgin Islands/Thailand	US$1	—	100	Metal trading
Linkful (PRC) Investments Limited	Hong Kong	HK$2	—	100	Investment holding
Linkful Management Services Limited	Hong Kong	HK$2	—	100	Provision of management services
Linkful Strategic Investment Limited	British Virgin Islands	US$1	100	—	Investment holding

15. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
			%	%	
Linkful Properties Company Limited	Hong Kong/ Mainland China	HK$2	—	100	Investment and property holding
Inter China Limited	British Virgin Islands	US$100	—	57	Investment holding
East Winner Limited	British Virgin Islands	US$1	100	—	Investment holding
Linkful Electronics Limited	British Virgin Islands	US$1	100	—	Investment holding
Alphatronics Limited	Hong Kong	HK$6,000,000	—	75	Trading of electronic products
Alphatronics Electronic (Shenzhen) Co., Ltd. (Note)	People's Republic of China ("PRC")/ Mainland China	US$3,310,000	—	75	Manufacture of electronic components
Snowdon Worldwide Limited	British Virgin Islands	US$1	—	100	Investment holding

Note: Registered as a wholly-foreign owned enterprise under PRC law.

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

16. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets	**59,160**	53,347
Loans to associates	**33,019**	33,019
	92,179	86,366
Provision for impairment	**(1,565)**	(1,565)
	90,614	84,801

The loans to associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate their fair values.

Particulars of the principal associates as at 31 December 2006 are as follows:

Name	**Particular of issued shares held**	**Place of incorporation/ registration**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Prince Properties Limited	5,000 ordinary shares of HK$1 each	Hong Kong	50	Investment holding
Call Rich Investments Limited	12,520 ordinary shares of US$1 each	British Virgin Islands	25.04	Investment holding

The Group's shareholdings in the associates' equity shares are held through wholly-owned subsidiaries of the Company.

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

The following table illustrates the summarised financial information of the Group's associates as extracted from their financial statements:

	2006	2005
	HK$'000	*HK$'000*
Total assets	**711,781**	700,866
Total liabilities	**341,574**	358,723
Revenue	**27,033**	27,149
Profit	**7,580**	9,168

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed debt investments, at fair value	**8,600**	10,353	**—**	—
Club debentures, at fair value	**670**	670	**670**	670
Unlisted equity investments, at cost	**48,967**	48,967	**—**	—
Provision for impairment	**(10,007)**	(10,007)	**—**	—
	48,230	49,983	**670**	670

During the year, the gross gain of the Group's available-for-sale investments recognised directly in equity amounted to approximately HK$144,000 (2005: gross loss of HK$509,000), and approximately HK$492,000 (2005: Nil) was removed from equity and recognised in the income statements for the year.

As at 31 December 2006, the Group's listed debt investments with a carrying value of approximately HK$8,600,000 (2005: HK$10,353,000) were pledged to secure the Group's interest-bearing borrowings, further details of which are disclosed in note 27 to the financial statements.

The above unlisted equity investments designated as available-for-sale investments have no fixed maturity date or coupon rate. The Group's unlisted equity investments are not stated at fair value but at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

Particulars of unlisted equity investments as at 31 December 2006 were as follows:

Name	Place of incorporation	Nominal value of issued ordinary share capital	Percentage of equity interest attributable to the Group	Principal activities
Rich Returns Limited	British Virgin Islands	US$100	18	Investment holding
Head Wonder International Limited	British Virgin Islands	US$10,000	5	Investment holding

18. EQUITY-LINKED NOTES

Equity-linked notes are designated as financial assets at fair value through profit or loss.

Carrying amount analysed for reporting purposes as:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Non-current	**49,939**	—

Major terms of the equity-linked notes are as follows:

Notional amount	**Maturity**
US$4,500,000	2008
JPY750,000,000	2008

The equity-linked notes are callable and bear interest which range from 22.20% to 41.04% per annum with guaranteed coupon for the 1st quarter. The equity-linked notes are linked with various Hong Kong and overseas listed securities at various strike prices.

The above equity-linked notes are measured at fair value at the balance sheet date. Their fair values are determined based on the quoted prices provided by the securities' broker for equivalent instruments at the balance sheet date.

As at 31 December 2006, the Group's equity-linked notes with a carrying value of approximately HK$49,939,000 (2005: Nil) were pledged to secure the Group's interest-bearing borrowings, further details of which are disclosed in note 27 to the financial statements.

19. LOANS TO INVESTEE COMPANIES

The loans to investee companies are unsecured, interest-free and have no fixed terms of repayment.

The fair values of the Group's loans to investee companies included in the amount at the balance sheet date approximate the corresponding carrying amounts.

20. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**679**	1,614
Work in progress	**7**	10
Finished goods	**639**	717
	1,325	2,341

21. TRADE RECEIVABLES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within three months	**2,440**	1,576
Four to six months	**376**	—
	2,816	1,576

The Group's trading terms with customers are mainly on credit. Invoices are normally payable within two months of issuance, except for certain well established customers, where the terms are extended to three to six months in some cases, subject to the approval of senior management. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest-bearing.

The fair values of the Group's trade receivables approximate their corresponding carrying amounts.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The fair values of the Group's and the Company's prepayments, deposits and other receivables approximate their corresponding carrying amounts.

23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed equity investments, at market value				
Hong Kong	**67,439**	76,356	**665**	616
Elsewhere	**25,852**	23,002	**—**	—
	93,291	99,358	**665**	616

The above equity investments as at 31 December 2005 and 2006 were classified as held for trading. As at 31 December 2006, the Group's listed equity investments with a carrying value of approximately HK$4,260,000 (2005: HK$17,048,000) were pledged to secure the Group's interest-bearing borrowings, further details of which are disclosed in note 27 to the financial statements.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**38,545**	3,470	**1**	1
Time deposits	**55,821**	41,629	**—**	—
	94,366	45,099	**1**	1
Less: Pledged time deposits	**(55,821)**	(25,463)	**—**	—
Cash and cash equivalents	**38,545**	19,636	**1**	1

The time deposits of HK$55,821,000 (2005: HK$25,463,000) were pledged as security for banking facilities granted.

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

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$24,000 (2005: HK$52,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. TRADE PAYABLES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within three months	**471**	628
Four to six months	**79**	114
	550	742

The trade payables are non-interest-bearing and are normally settled on 60-days terms. The fair values of the Group's trade payables approximate their corresponding carrying amounts.

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals and other liabilities	**9,549**	10,056	**155**	124
Due to a minority shareholder	**1,271**	590	**—**	—
	10,820	10,646	**155**	124

The amount due to the minority shareholder is unsecured, interest-free and has no fixed terms of repayment. Accruals and other liabilities are non-interest-bearing and have an average term of two months.

The fair values of the Group's and the Company's other payables and accruals approximate their corresponding carrying amounts.

27. INTEREST-BEARING BORROWINGS

	Group					
	2006			2005		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Secured other loans denominated in Japanese Yen	**0.97**	**January 2007**	**44,203**	0.58	4 January 2006	1,603
Analysed into:						
Other loans repayable:						
Within one year or on demand			**44,203**			1,603

As at 31 December 2006, the Group's other loans with an investment bank are secured by certain cash deposits and investments with an aggregate carrying amount of approximately HK$110,253,000 (2005: HK$46,129,000).

The carrying amounts of the Group's current borrowings approximate their fair values.

28. SHARE CAPITAL

Shares

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 (2005: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
1,800,000,000 (2005: 1,800,000,000) ordinary shares of HK$0.01 each	**18,000**	18,000

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

29. SHARE OPTION SCHEMES

(a) The 1993 Scheme

On 8 March 1993, the Company adopted a share option scheme (the "1993 Scheme") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the 1993 Scheme included the Company's directors, including independent non-executive directors and employees of the Group. The 1993 Scheme remained in force for 10 years from that date and expired on 7 March 2003.

The maximum number of shares over which options could be granted could not exceed 10% of the ordinary share capital in issue from time to time, excluding those shares which had been issued under the 1993 Scheme.

Under the 1993 Scheme, the directors could, at their discretion, at any time during the 10 years from the date of approval of the 1993 Scheme, grant to directors, including independent non-executive directors, and employees of the Group options to subscribe for shares in the share capital of the Company. The share subscription price of any options granted under the 1993 Scheme was the higher of 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date on which an option is granted and the nominal value of the shares.

Pursuant to a directors' resolution passed on 7 February 1998, options to subscribe for an aggregate of 58,500,000 shares in the Company within 10 years from the date of grant, at a subscription price of HK$0.112 per share, were granted by the Company. None of these share options has since been exercised by the grantees.

29. SHARE OPTION SCHEMES *(continued)*

(a) The 1993 Scheme *(continued)*

Name or category of participant	Date of grant of share options	Exercise price of share options *HK$ per share (Note)*	Number of share options as at 1 January and 31 December 2006	Exercise period of share options	Price of Company's shares at grant date of options *HK$ per share*
Director					
Lau Chi Yung, Kenneth	7 February 1998	0.112	19,500,000	7 February 1998 to 6 February 2008	0.19
Others					
Tsang Pak Chung, Eddy	7 February 1998	0.112	19,500,000	7 February 1998 to 6 February 2008	0.19
Leung Wei San, Saskia	7 February 1998	0.112	19,500,000	7 February 1998 to 6 February 2008	0.19
			58,500,000		

Note: The exercise price of the share options is subject to adjustment in the case of rights or bonus issues or other similar changes in the Company's share capital.

No share options were granted, exercised, lapsed or cancelled during the year.

As at 31 December 2006, 58,500,000 share options remained outstanding under the 1993 Scheme, which represented approximately 3.25% of the Company's shares in issue as at that date. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 58,500,000 additional ordinary shares of the Company and additional share capital of HK$585,000 and share premium of HK$5,967,000 (before issue expenses).

29. SHARE OPTION SCHEMES *(continued)*

(b) The 2003 Scheme

On 27 June 2003, a new share option scheme (the "2003 Scheme"), in compliance with the requirements of Chapter 17 of the Listing Rules, was adopted by the Company for a period of 10 years, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2003 Scheme include any employee (including any executive and non-executive director), adviser, consultant, agent, contractor, client or customer, or supplier of any member of the Group.

The maximum number of unexercised share options currently permitted to be granted under the 2003 Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the 2003 Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 5 days from the date of the offer upon payment of a nominal consideration by the grantee. The exercise period of the share options granted is determinable by the directors, commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the option.

The subscription price is determined by the directors, but in any event may not be less than the higher of (i) the closing price of the shares on the date of grant, which must be a trading date; (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of share.

No share options were granted, exercised, expired or forfeited during the year.

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

30. RESERVES

(a) Group

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

(b) Company

	Share premium account	Capital redemption reserve	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2005	418,511	546	88,380	(353,365)	154,072
Loss for the year	—	—	—	(225)	(225)
As at 31 December 2005 and 1 January 2006	418,511	546	88,380	(353,590)	153,847
Profit for the year	—	—	—	37	37
As at 31 December 2006	418,511	546	88,380	(353,553)	153,884

The Company's contributed surplus represents the difference arising between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the value of the net assets of the subsidiaries acquired at the time of the Group's reorganisation in a prior year. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

(a) The Group received rental income of HK$106,000 (2005: HK$115,000) from Alpha Japan Limited ("Alpha Japan"), the minority shareholder of a subsidiary of the Group. The rental income was charged based on open market rental.

(b) A subsidiary sold finished goods of approximately HK5,036,000 (2005: HK$3,197,000) to and purchased raw materials and equipment parts of approximately HK$1,323,000 (2005: HK$1,186,000) from a related company of Alpha Japan. These transactions were based on published prices and conditions normally offered by the Group to third party customers in the ordinary course of business of the Group (in respect of the sales), and offered by a related company of Alpha Japan to its third party customers (in respect of the purchases).

32. OPERATING LEASE COMMITMENTS

The Group and the Company had no significant commitments under non-cancellable operating leases at the balance sheet date (2005: Nil).

33. CORPORATE GUARANTEES

As at 31 December 2006, the Company has given corporate guarantees in favour of banks for banking facilities granted to its subsidiaries and associates to the extent of approximately HK$540,568,000, of which HK$132,038,000 was utilised. In the opinion of the directors, no material liabilities will arise from the above corporate guarantees which arose in the ordinary course of business of the Group and the fair values of the corporate guarantees granted by the Company are immaterial.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2007.