31 December 2006

1. CORPORATE INFORMATION

Tongda Group Holdings Limited is a limited liability company incorporated in the Cayman Islands.

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands.

The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Landmark Worldwide Holdings Limited ("Landmark"), 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. They have been prepared under the historical cost convention, except for an investment property and certain buildings 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 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. 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.

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:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised standards and interpretations has had no material impact on these financial statements.

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

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 the amendment has had no material impact on these financial statements.

(c) HK(IFRIC)-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. 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 are 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

HKAS 1 Amendment shall be applied for accounting period beginning on 1 January 2007. The revised standard will affect the disclosures on qualitative information about the Group's objectives, 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 accounting period beginning on 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.

HKFRS 8 shall be applied for accounting period beginning on 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 10 shall be applied for accounting period beginning on 1 January 2007; and HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for accounting period beginning on 1 January 2008.

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 HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs will not have any 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.

Joint venture

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, 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.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and an investment property), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill *(continued)*

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 asset.

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 holding company;

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

(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); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation 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 the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value, over the following estimated useful lives:

Leasehold buildings in Hong Kong	Over the lease terms
Leasehold buildings in Mainland China	Over the lease terms
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Plant and machinery	10 – 12 years
Furniture, fixtures and office equipment	5 – 10 years
Motor vehicles	5 – 10 years

Estimated residual values are determined as 10% of the original purchase cost of each individual underlying asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or other assets when completed and ready for use.

Investment property

An investment property is an interest in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, an investment property is stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair value of an investment property is included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

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 lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases 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

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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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.

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.

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 the 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.

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 bank borrowings)

Financial liabilities including trade and bills payables, other payables, interest-bearing bank borrowings and trust receipt loans 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.

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.

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, associates and interests in a joint venture, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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 and interests in a jointly-controlled entity, 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.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheets, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

The functional currencies of certain overseas subsidiaries, associates and a jointly-controlled entity are currencies other than 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 the 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.

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 an 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;

(c) rental income, on a time proportion basis over the lease terms; and

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 by an external valuer using a Black-Scholes model, further details of which are given in note 29 to the financial statements. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions (continued)

The Group has adopted the transitional provisions 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 those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The Group's subsidiaries in Mainland China are required to participate in the employee retirement scheme operated by the relevant local government bureau in Mainland China and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages for those eligible employees.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between leasehold land element from leasehold land and buildings

The Group has determined the carrying value of the land element of the leasehold land and buildings held in Hong Kong in relation to the value of the entire lease is insignificant and cannot be reliably allocated. Accordingly, the leasehold land and buildings held in Hong Kong has been treated as a single unit and accounted for under HKAS 16 "Property, plant and equipment".

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property. The Group has determined that it retains all the significant risks and rewards of ownership of the property which is leased out on operating leases.

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.

Provision for obsolete inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

Impairment of trade and bills receivables and other receivables

Impairment of trade and bills receivables and other receivables is made based on assessment of the recoverability of trade and bills 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.

Estimation of fair value of an investment property

As described in note 14 to the financial statements, the investment property was revalued at the balance sheet date on a market value existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

4. 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 electrical fittings segment produces accessories for electrical appliance products;

(b) the ironware parts segment is a supplier of metallic casings and other ironware parts for electrical and electronic appliances;

(c) the communication facilities segment is a supplier of electronic components and fibre optic cables, the essential components of communication equipment; and

(d) the corporate and others segment comprises the trading of electrical appliances, the Group's management services business and the corporate income and expense items.

In determining the Group's geographical segments, revenues are 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.

4. 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

	Electrical fittings		Ironware parts		Communication facilities		Corporate and others		Eliminations		Consolidated	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Segment revenue:												
Sales to external customers	459,876	400,728	386,844	417,616	188,214	233,555	83,983	60,216	–	–	1,118,917	1,112,115
Intersegment sales	1,998	723	6,549	2,056	–	–	–	–	(8,547)	(2,779)	–	–
Total	461,874	401,451	393,393	419,672	188,214	233,555	83,983	60,216	(8,547)	(2,779)	1,118,917	1,112,115
Segment results	144,247	105,265	44,632	22,082	3,853	17,882	(15,493)	(2,278)	(1,108)	(2,167)	176,131	140,784
Unallocated income											27,606	9,071
Finance costs											(17,675)	(14,583)
Share of profits and losses of:												
Associates											4,338	4,794
A jointly-controlled entity											4,990	1,815
Profit before tax											195,390	141,881
Tax											(35,052)	(17,941)
Profit for the year											160,338	123,940

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Electrical fittings		Ironware parts		Communication facilities		Corporate and others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	696,989	475,146	428,748	272,787	468,104	409,811	351,922	136,668	(922,088)	(425,530)	1,023,675	868,882
Unallocated assets											153,631	141,778
Total assets											1,177,306	1,010,660
Segment liabilities	553,700	291,031	153,681	92,423	374,712	256,849	55,486	44,176	(922,088)	(425,530)	215,491	258,949
Unallocated liabilities											335,184	270,383
Total liabilities											550,675	529,332
Other segment information:												
Depreciation	13,392	11,387	8,240	7,629	5,698	4,376	489	241	–	–	27,819	23,633
Amortisation of prepaid land lease payments	400	360	–	46	65	93	–	–	–	–	465	499
Impairment/(write-back of impairment) of bad and doubtful debts	(700)	1,778	–	(624)	(19)	1,848	–	119	–	–	(719)	3,121
Write off of trade receivables	126	–	–	2,155	–	–	–	–	–	–	126	2,155
Provision for/(write-back of provision for) obsolete inventories	–	–	–	(1,206)	(180)	419	–	–	–	–	(180)	(787)
Loss/(gain) on disposal of items of property, plant and equipment	136	266	–	–	–	(388)	177	24	–	–	313	(98)
Amortisation of prepayments	–	–	897	793	–	–	–	–	–	–	897	793
Loss on disposal of a subsidiary	–	–	–	–	–	–	–	1,374	–	–	–	1,374
Surplus on revaluation of property, plant and equipment recognised directly in equity	–	–	–	–	–	–	(1,013)	(5,808)	–	–	(1,013)	(5,808)
Changes in fair value of an investment property	–	–	–	–	–	–	(400)	(1,100)	–	–	(400)	(1,100)
Capital expenditure	68,067	41,733	22,158	24,268	9,666	25,151	1,627	110	–	–	101,518	91,262

4. SEGMENT INFORMATION *(continued)*

(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		Southeast Asia		Australia		Others		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:												
Sales to external customers	120,535	88,359	756,321	811,723	37,477	74,758	68,550	59,631	136,034	77,644	1,118,917	1,112,115
Segment assets	140,399	163,003	973,598	769,717	2,738	22,864	25,703	30,682	34,868	24,394	1,177,306	1,010,660
Other segment information:												
Capital expenditure	1,627	110	99,891	91,152	–	–	–	–	–	–	101,518	91,262

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

6. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest expenses on bank loans, overdrafts and other loans wholly repayable within five years	17,675	14,583

7. PROFIT BEFORE TAX

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

	2006 HK$'000	2005 HK$'000
Cost of inventories sold	849,825	885,172
Employee benefits expense (excluding directors' remuneration – *note 8*)		
Salaries and wages	113,857	86,962
Equity-settled share option benefits	770	41
Pension scheme contributions	357	164
Less: Amounts included in research and development costs	(1,272)	(4,360)
	113,712	82,807
Minimum lease payments under operating leases of leasehold land and buildings	997	1,401
Auditors' remuneration	1,380	1,200
Depreciation	27,819	23,633
Amortisation of prepaid land lease payments	465	499
Research and development costs	32,490	16,990
Changes in fair value of an investment property*	(400)	(1,100)
Amortisation of prepayments	897	793
Impairment/(write-back of impairment) of bad and doubtful debts*	(719)	3,121
Write off of trade receivables*	126	2,155
Write-back of obsolete inventories*	(180)	(787)
Loss/(gain) on disposal of items of property, plant and equipment	313	(98)
Gross rental income with nil outgoings**	(2,095)	(1,821)
Bank interest income**	(1,457)	(628)
Foreign exchange differences, net**	(12,249)	(1,317)
Loss on disposal of a subsidiary	–	1,374

* The changes in fair value of an investment property, impairment/(write-back of impairment) of bad and doubtful debts, write off of trade receivables and write-back of obsolete inventories for the year are included in "Other expenses, net" on the face of the consolidated income statement.

** The gross rental income with nil outgoings, bank interest income and foreign exchange differences, net for the year are included in "Other income and gains" on the face of the consolidated income statement.

Cost of inventories sold includes HK$124,566,000 (2005: HK$96,815,000) relating to staff costs, operating lease rentals on land and buildings, amortisation of prepayments, and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees	**2,010**	1,311
Other emoluments:		
Salaries, allowances and benefits in kind	**3,440**	2,644
Equity-settled share option benefits	**–**	1,034
Pension scheme contributions	**174**	174
	3,614	3,852
	5,624	5,163

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	2005
	HK$'000	*HK$'000*
Mr. Wong Kong Hon, SBS, JP	**120**	120
Mr. Ting Leung Huel, Stephen	**150**	135
Mr. Cheung Wah Fung, Christopher, JP	**120**	120
	390	375

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Directors' remuneration *(continued)*

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006					
Executive directors:					
Mr. Wang Ya Nan	**660**	**810**	**–**	**54**	**1,524**
Mr. Wang Ya Hua	**240**	**750**	**–**	**30**	**1,020**
Mr. Wong Ah Yu	**240**	**750**	**–**	**30**	**1,020**
Mr. Wong Ah Yeung	**240**	**750**	**–**	**30**	**1,020**
Mr. Choi Wai Sang	**240**	**380**	**–**	**30**	**650**
	1,620	**3,440**	**–**	**174**	**5,234**
2005					
Executive directors:					
Mr. Wang Ya Nan	360	740	–	54	1,154
Mr. Wang Ya Hua	144	476	–	30	650
Mr. Wong Ah Yu	144	476	269	30	919
Mr. Wong Ah Yeung	144	476	662	30	1,312
Mr. Choi Wai Sang	144	476	103	30	753
	936	2,644	1,034	174	4,788

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Five highest paid employees

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	992	801
Employee share option benefits	770	–
Pension scheme contributions	12	12
	1,774	813

The above remuneration of the non-director, highest paid employee fell within the band of HK$1,000,001 – HK$1,500,000 (2005: Nil to HK$1,000,000).

During the year, the non-director, highest paid employee was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options, which was charged to the income statements, was determined as at the date of the grant and was included in the above five highest paid employees disclosures.

9. 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 during 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.

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	5,656	4,489
Overprovision in prior years	(1,337)	(38)
Current – Elsewhere		
Charge for the year	36,952	23,237
Overprovision in prior years	(6,219)	(9,747)
Total tax charge for the year	35,052	17,941

9. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries/jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Profit before tax	**195,390**	141,881
Tax at the statutory tax rate of 15.75%	**2,931**	1,922
Tax at the statutory tax rate of 17.5%	**(1,064)**	762
Tax at the statutory tax rate of 33%	**60,343**	41,356
Lower applicable tax rate enjoyed by the Group	**(20,378)**	(18,503)
Estimated tax effect of net expenses that are not deductible in determining taxable profit	**3,854**	4,370
Profit attributable to a jointly-controlled entity and associates	**(3,078)**	(2,181)
Adjustments in respect of current tax of prior years	**(7,556)**	(9,785)
Tax charge at the Group's effective rate	**35,052**	17,941

福建省石獅市通達電器有限公司(Tongda Electrics Company Limited, Shishi), 福建省石獅通達電子有限公司(Tongda Electronic Company Limited, Shishi City) and 廈門通達光纜有限公司(Xiamen Optic Conduct Cable Company Limited), three of the Group's subsidiaries, operating in Mainland China are subject to the People's Republic of China's corporate income tax at the preferential tax rate of 27% (2005: 27%). Taxes on the assessable profits of 通達五金（深圳）有限公司(Tongda Ironware (Shenzhen) Company Limited)*, a subsidiary operating in Mainland China are subject to the preferential tax rates of 7.5%, as this subsidiary is entitled to a 50% relief from income tax in its fourth profit-making year.

The share of tax attributable to associates amounting to HK$1,727,000 (2005: HK$2,234,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement. The jointly-controlled entity operating in Mainland China is exempted from corporate income tax for two years from its first profit making year and is eligible for a 50% relief from income tax for the following three years under the Income Tax Law. No provision for corporate income tax has been made for the jointly-controlled entity because the jointly-controlled entity is in its second profit making year.

10. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to ordinary equity holders of the Company for the year ended 31 December 2006 includes a loss of HK$15,699,000 (2005: profit of HK$9,972,000) which has been dealt with in the financial statements of the Company (note 30(b)).

11. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim – HK0.8 cent (2005: HK0.5 cent) per ordinary share	**26,796**	16,497
Special – Nil (2005: HK0.2 cent) per ordinary share	**–**	6,599
Proposed final – HK0.8 cent (2005: HK0.5 cent) per ordinary share	**32,132**	16,497
	58,928	39,593

The proposed final dividend for the year is calculated based on 4,016,500,000 issued and fully paid up issued shares of the Company, as detailed in notes 28 and 38(a) to the financial statements, respectively, up to the date of these financial statements.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK$161,194,000 (2005: HK$124,807,000), and the weighted average of 3,327,481,000 (2005: 3,299,500,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2006 is based on the profit for the year attributable to ordinary equity holders of the Company of HK$161,194,000 (2005: HK$124,807,000). The weighted average number of ordinary shares used in the calculation is the 3,327,481,000 (2005: 3,299,500,000) ordinary shares in issued during the year, as used in the basic earnings per share calculation and the weighted average of 14,415,000 (2005: 1,083,516) ordinary shares assumed to have been issued at no consideration on the deemed exercise of 72,000,000 (2005: 52,000,000) share options during the year.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold buildings in Hong Kong	Leasehold buildings in Mainland China	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2006								
Cost or valuation:								
At beginning of year	22,700	75,834	7,561	200,832	9,936	9,865	9,490	336,218
Additions	–	684	–	59,898	2,039	5,742	33,155	101,518
Disposals	–	–	–	(465)	(46)	(863)	–	(1,374)
Transfer to leasehold buildings	–	3,128	–	–	–	–	(3,128)	–
Transfer to furniture, fixtures and office equipment	–	–	–	–	67	–	(67)	–
Surplus on revaluation	600	–	–	–	–	–	–	600
Exchange realignment	–	3,060	255	8,146	349	379	387	12,576
At 31 December 2006	23,300	82,706	7,816	268,411	12,345	15,123	39,837	449,538
Accumulated depreciation:								
At beginning of year	–	11,805	2,770	43,226	3,485	3,316	–	64,602
Provided for the year	413	3,777	489	20,430	1,254	1,456	–	27,819
Write-back on disposals	–	–	–	(64)	(34)	(388)	–	(486)
Reversal upon revaluation	(413)	–	–	–	–	–	–	(413)
Exchange realignment	–	507	71	1,765	98	128	–	2,569
At 31 December 2006	–	16,089	3,330	65,357	4,803	4,512	–	94,091
Net book value:								
At 31 December 2006	23,300	66,617	4,486	203,054	7,542	10,611	39,837	355,447
At 31 December 2005	22,700	64,029	4,791	157,606	6,451	6,549	9,490	271,616

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

An analysis of the cost or valuation of the property, plant and equipment of the Group is as follows:

Group

	Leasehold buildings in Hong Kong	Leasehold buildings in Mainland China	Leasehold improve-ments	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	82,706	7,816	268,411	12,345	15,123	39,837	426,238
At 31 December 2006 valuation	23,300	–	–	–	–	–	–	23,300
At 31 December 2006	23,300	82,706	7,816	268,411	12,345	15,123	39,837	449,538

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

Group

	Leasehold buildings in Hong Kong	Leasehold buildings in Mainland China	Leasehold improve-ments	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2005								
Cost or valuation:								
At beginning of year	17,200	53,924	7,382	178,974	8,293	11,837	6,610	284,220
Additions	–	4,024	–	49,598	2,253	2,572	36,785	95,232
Disposals	–	(10)	–	(1,754)	(69)	–	–	(1,833)
Disposal of a subsidiary	–	(10,978)	–	(36,496)	(788)	(4,874)	(441)	(53,577)
Transfer to leasehold buildings	–	27,324	–	–	–	–	(27,324)	–
Transfer to plant and machinery	–	–	–	5,294	–	–	(5,294)	–
Transfer to furniture, fixtures and office equipment	–	–	–	–	42	–	(42)	–
Transfer to prepayments	–	–	–	–	–	–	(1,000)	(1,000)
Surplus on revaluation	5,500	–	–	–	–	–	–	5,500
Exchange realignment	–	1,550	179	5,216	205	330	196	7,676
At 31 December 2005	22,700	75,834	7,561	200,832	9,936	9,865	9,490	336,218
Accumulated depreciation:								
At beginning of year	–	10,944	2,237	41,122	2,819	4,737	–	61,859
Provided for the year	308	3,833	493	16,542	1,236	1,221	–	23,633
Write-back on disposals	–	(4)	–	(957)	(41)	–	–	(1,002)
Disposal of a subsidiary	–	(3,284)	–	(14,692)	(586)	(2,778)	–	(21,340)
Reversal upon revaluation	(308)	–	–	–	–	–	–	(308)
Exchange realignment	–	316	40	1,211	57	136	–	1,760
At 31 December 2005	–	11,805	2,770	43,226	3,485	3,316	–	64,602
Net book value:								
At 31 December 2005	22,700	64,029	4,791	157,606	6,451	6,549	9,490	271,616
At 31 December 2004	17,200	42,980	5,145	137,852	5,474	7,100	6,610	222,361

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

An analysis of the cost or valuation of the property, plant and equipment of the Group is as follows:

Group

	Leasehold buildings in Hong Kong	Leasehold buildings in Mainland China	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	75,834	7,561	200,832	9,936	9,865	9,490	313,518
At 31 December 2005 valuation	22,700	–	–	–	–	–	–	22,700
At 31 December 2005	22,700	75,834	7,561	200,832	9,936	9,865	9,490	336,218

The Group's leasehold buildings situated in Hong Kong were revalued at the balance sheet date by Greater China Appraisal Ltd, an independent firm of professionally qualified valuers, at open market value of HK$23,300,000 (2005: HK$22,700,000). Revaluation surpluses of HK$1,013,000 (2005: HK$5,808,000), resulting from the above valuations, have been credited to the asset revaluation reserve.

The Group's leasehold buildings situated in Hong Kong at valuation of HK$23,300,000 are held under long term leases. The Group's leasehold buildings situated in Mainland China are held under medium term leases.

Had all of the Group's leasehold buildings situated in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$12,943,000 (2005: HK$13,197,000).

The Group's leasehold buildings with net book value of HK$22,108,000 (2005: HK$18,241,000) in Mainland China have been pledged as security against banking facilities granted to the Group (note 26).

As at 31 December 2006, the Group has not yet obtained the title ownership certificates for certain of its buildings situated in Xiamen city and Shishi city, Fujian, Mainland China with a net book value of approximately HK$30,671,000 (2005: HK$18,970,000). The Company's directors confirmed that, as the Group has properly obtained the land use right certificates in respect of the land on which the buildings located, there is no legal barrier or otherwise for the Group to obtain the relevant buildings ownership certificates for the buildings from the relevant Mainland China authority. As disclosed in the prior years' annual reports, when all the relevant buildings ownership certificates are obtained, the results of the revaluation for the leasehold buildings in Mainland China will be reflected.

14. INVESTMENT PROPERTY

	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	2,900	1,800
Fair value adjustment	400	1,100
Carrying amount at 31 December	3,300	2,900

The Group's investment property held under the medium term lease is situated in Hong Kong and has been pledged as security against banking facilities granted to the Group (note 26).

The Group's investment property was revalued on 31 December 2006 by Greater China Appraisal Ltd, an independent firm of professionally qualified valuers, at an open market, existing use basis of HK$3,300,000 (2005: HK$2,900,000). The investment property is leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	18,947	20,921
Disposals	–	(1,254)
Disposal of a subsidiary	–	(825)
Recognised during the year	(465)	(499)
Exchange realignment	757	604
Carrying amount at 31 December	19,239	18,947
Current portion included in prepayments, deposits and other receivables	(465)	(484)
Non-current portion	18,774	18,463

The leasehold land is held under a medium term lease and is situated in Mainland China. As at 31 December 2006, the Group's land use rights, classified as prepaid land lease payments, with a net book value of HK$2,361,000 (2005: HK$2,310,000) was pledged as security against banking facilities granted to the Group (note 26).

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16. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted investments, at cost	**79,379**	79,379
Loans to subsidiaries	**48,492**	–
	127,871	79,379

The balances with subsidiaries are unsecured, interest-free and are repayable on demand. The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayments. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries. The carrying amounts of the balances with subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
Directly held					
Tong Da Holdings (BVI) Limited	British Virgin Islands ("BVI")	Ordinary US$10,000	**100**	100	Investment holding
Indirectly held					
Tong Da General Holdings (H.K.) Limited	Hong Kong	Ordinary HK$880,000	**100**	100	Investment holding and raw material sourcing

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16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Indirectly held *(continued)*					
Ever Target Limited	Hong Kong	Ordinary HK$4	**100**	100	Investment holding
Tongda Group International Limited	Hong Kong	Ordinary HK$2	**100**	100	Investment holding
Tongda Optical Fiber Technology Limited	Hong Kong	Ordinary HK$100,000	**86.67**	86.67	Investment holding
福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi) *(Note 1)*	People's Republic of China ("PRC")/ Mainland China	Registered Renminbi ("RMB") 22,693,686	**100**	100	Manufacture and sale of accessories for electrical appliance products
福建省石獅通達電子有限公司 (Tongda Electronic Company Limited, Shishi City) *(Note 2)*	PRC/ Mainland China	Registered RMB10,000,000	**100**	100	Manufacture and sale of resistors and other electronic products
廈門通達光纜有限公司 (Xiamen Optic Conduct Cable Company Limited) *(Note 3)*	PRC/ Mainland China	Registered RMB73,864,018	**70**	70	Manufacture and sale of fibre optic cables

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16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Indirectly held *(continued)*					
通達五金（深圳）有限公司 (Tongda Ironware (Shenzhen) Company Limited) *(Note 4)*	PRC/ Mainland China	Registered HK$30,000,000	**100**	100	Manufacture and sale of ironware products
Tongda (Shenzhen) Company Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Investment holding
Tongda Overseas Company Limited	BVI/Mainland China	Ordinary US$1	**100**	100	Provision of administrative and management services
Taxdeal Properties Limited	BVI/Mainland China	Ordinary US$1	**100**	100	Dormant
Tabcombe Consultants Limited	BVI/Mainland China	Ordinary US$1	**100**	100	Dormant
Tongda Overseas Macao Commercial Offshore Limited	Macau	Ordinary MOP100,000	**100**	100	Trading of electrical appliance products

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Indirectly held *(continued)*					
Wisdom Mark Industries Limited	BVI/Mainland China	Ordinary US$1	**100**	100	Provision of quality control and technical support services
Best Buy Limited	BVI/Mainland China	Ordinary US$1	**100**	100	Dormant
South Win Limited	Hong Kong	Ordinary HK$1,000	**100**	100	Dormant
Tongda Smart Technology Company Limited	Hong Kong	Ordinary HK$300,000	**100**	100	Dormant
Tongda (Xiamen) Company Limited	Hong Kong	Ordinary HK$10,000	**100**	100	Investment holding
Tong Da General (H.K.) Limited *(Note 5)*	Hong Kong	Ordinary HK$100,000	**100**	–	Investment holding

16. INTERESTS IN SUBSIDIARIES *(continued)*

Notes:

1. 福建省石獅市通達電器有限公司 (Tongda Electrics Company Limited, Shishi) is a wholly-foreign-owned enterprise with an operating period of 15 years commencing from 12 February 1993. The English name is direct translation of the Chinese name of the company.

2. 福建省石獅通達電子有限公司 (Tongda Electronic Company Limited, Shishi City) is a wholly-foreign-owned enterprise with an operating period of 30 years commencing from 20 December 1998.

3. 廈門通達光纜有限公司 (Xiamen Optic Conduct Cable Company Limited) is an equity joint venture established by the Group and a joint venture partner in the PRC for a period of 15 years commencing from 10 November 1993.

4. 通達五金（深圳）有限公司 (Tongda Ironware (Shenzhen) Company Limited) is a wholly-foreign-owned enterprise with an operating period of 30 years commencing from 11 April 2002.

5. Tong Da General (H.K.) Limited was newly incorporated during the year.

6. During the year, the Group set up two new wholly-foreign-owned subsidiaries in Mainland China, Tongda Communication Equipment Co., Ltd, Shishi and Tongda Light Electricity Technology Co., Ltd., Shishi with registered capital of HK$28,000,000 and HK$18,000,000, respectively. As at the balance sheet date, the registered capital was not yet paid and the amount was disclosed as a commitment in note 35 to the financial statements.

17. INTERESTS IN ASSOCIATES

	Group 2006	Group 2005
	HK$'000	*HK$'000*
Share of net assets	**12,136**	8,919
Due from associates	**3,166**	7,213
	15,302	16,132

Particulars of the associates are as follows:

Name	Place of incorporation and operations	Particulars of issued shares held	Percentage of ownership interest attributable to the Group 2006	Percentage of ownership interest attributable to the Group 2005	Principal activities
Meijitsu Tongda (HK) Company Limited ("Meijitsu")	Hong Kong/ Mainland China	Ordinary HK$10,000	**50**	50	Manufacture and sale of silk-screen printing products
Tongda Fuso (HK) Company Limited ("Fuso (HK)")	Hong Kong	Ordinary HK$100,000	**50**	30	Investment holding
Tongda Fuso Printing (Shanghai) Company Limited ("Fuso (Shanghai)")	PRC/Mainland China	Registered RMB10,760,265	**50**	30	Manufacture and sale of silk-screen printing products

Note:

In last year, Meijitsu hold 60% equity interest in Fuso (HK). During the year, Meijitsu acquired the remaining 40% equity interest in Fuso (HK) from the minority shareholder at a consideration of HK$40,000. As a result, the Group's equity interest in Fuso (HK) and Fuso (Shanghai) increased from 30% to 50%.

17. INTERESTS IN ASSOCIATES *(continued)*

Note: (continued)

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

The directors of the Company do not intend to demand settlement of the amounts due until the associates have surplus funds available to those necessary to provide adequate working capital for financing their operations. Accordingly, the amounts are classified as long term receivables.

All the above associates have been accounted for using the equity method in these financial statements. The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2006 *HK$'000*	2005 *HK$'000*
Assets	**60,680**	50,012
Liabilities	**30,886**	26,886
Revenues	**54,905**	47,103
Profits	**8,676**	18,734

18. INTERESTS IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2006 *HK$'000*	2005 *HK$'000*
Share of net assets	**17,988**	12,516
Due from a jointly-controlled entity	**1,801**	560
	19,789	13,076

18. INTERESTS IN A JOINTLY-CONTROLLED ENTITY *(continued)*

Particulars of the jointly-controlled entity are as follows:

Name	Place of incorporation and operations	Particulars of issued shares held	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Tongda (Xiamen) Technology Limited	PRC/Mainland China	Registered RMB23,174,700	49	50	49	Manufacture and sale of precision plastic injection parts

The balance with a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of this balance with a jointly-controlled entity approximates to its fair value.

The directors of the Company do not intend to demand settlement of the amount due until the jointly-controlled entity has surplus funds available to those necessary to provide adequate working capital for financing its operations. Accordingly, the amount is classified as a long term receivable.

The jointly-controlled entity has been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

Share of the jointly-controlled entity's assets and liabilities:

	2006 *HK$'000*	2005 *HK$'000*
Current assets	**16,420**	7,467
Non-current assets	**15,515**	11,512
Current liabilities	**(13,947)**	(6,463)
Net assets	**17,988**	12,516
Share of the jointly-controlled entity's results:		
Total revenue	**32,850**	13,762
Total expenses	**(27,860)**	(11,947)
Profit after tax	**4,990**	1,815

19. PREPAYMENTS

Group

	Prepaid rental *HK$'000*	Prepaid premises cost *HK$'000*	Total *HK$'000*
31 December 2006			
Costs:			
At beginning of year	1,817	39,569	41,386
Additions	–	203	203
Exchange realignment	73	1,582	1,655
At 31 December 2006	1,890	41,354	43,244
Amortisation:			
At beginning of year	109	1,805	1,914
Amortised during the year	41	856	897
Exchange realignment	4	72	76
At 31 December 2006	154	2,733	2,887
Net book value:			
At 31 December 2006	1,736	38,621	40,357
At 31 December 2005	1,708	37,764	39,472

19. PREPAYMENTS *(continued)*

Group

	Prepaid rental	Prepaid premises cost	Total
	HK$'000	*HK$'000*	*HK$'000*
31 December 2005			
Costs:			
At beginning of year	1,682	34,528	36,210
Additions	86	3,045	3,131
Transfer to prepaid land lease payments	–	1,000	1,000
Exchange realignment	49	996	1,045
At 31 December 2005	1,817	39,569	41,386
Amortisation:			
At beginning of year	69	1,021	1,090
Amortised during the year	38	755	793
Exchange realignment	2	29	31
At 31 December 2005	109	1,805	1,914
Net book value:			
At 31 December 2005	1,708	37,764	39,472
At 31 December 2004	1,613	33,507	35,120

The prepaid rental represents rental of a piece of land located in Mainland China. The Group has been granted the right to use the land for a period of 50 years. The prepaid premises cost represents cost for construction of certain premises erected on one piece of the land (the "Land"). The Group has been granted the right to use these premises within the rental period of the Land. As confirmed by legal opinions issued by the Group's Mainland China lawyers, the lessor of the Land has the right to lease the Land and the leasing agreement entered into by the Group with the lessor is legally enforceable under the PRC laws.

The prepaid rental is amortised on a straight-line basis over the lease term of 50 years. The prepaid premises cost is amortised on a straight-line basis over the remaining lease term of the Land.

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20. LONG TERM DEPOSITS

Long term deposits represent deposits paid for the acquisition of certain items of property, plant and equipment.

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	83,015	72,166
Work in progress	16,565	13,587
Finished goods	21,554	17,919
	121,134	103,672

22. TRADE AND BILLS RECEIVABLES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Trade receivables	432,815	365,858
Bills receivables	13,957	14,159
	446,772	380,017

It is the general policy of the Group to allow a credit period of three to six months except for the sale of fibre optic cable products on which a longer credit period of three to eighteen months is allowed in certain cases. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted in order to maintain a good relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing. The carrying amounts of trade and bills receivables approximate to their fair values.

22. TRADE AND BILLS RECEIVABLES *(continued)*

An aged analysis of the Group's trade and bills receivables as at 31 December 2006, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 3 months	**350,685**	322,407
4 to 6 months, inclusive	**56,127**	34,458
7 to 9 months, inclusive	**18,076**	17,240
10 to 12 months, inclusive	**9,374**	4,109
More than 1 year	**19,391**	9,121
	453,653	387,335
Impairment allowances for bad and doubtful debts	**(6,881)**	(7,318)
	446,772	380,017

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	**86,794**	95,366	**569**	260
Time deposits	**31,616**	17,074	**25,591**	–
	118,410	112,440	**26,160**	260
Less: Pledged for trade facilities	**(5,199)**	(9,340)	**–**	–
	113,211	103,100	**26,160**	260

23. CASH AND CASH EQUIVALENTS *(continued)*

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK$39,930,000 (2005: HK$36,147,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for approximately one week on average 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 time deposits approximate to their fair values.

24. TRADE AND BILLS PAYABLES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Trade payables	**117,898**	143,314
Bills payables	**36,152**	69,899
	154,050	213,213

The carrying amounts of trade and bills payables approximate to their fair values. The trade payables are non-interest bearing and are normally settled on 60 to 90 days terms. An aged analysis of the Group's trade and bills payables as at 31 December 2006, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 3 months	**124,485**	192,288
4 to 6 months, inclusive	**20,566**	14,920
7 to 9 months, inclusive	**5,446**	3,056
10 to 12 months, inclusive	**692**	449
More than 1 year	**2,861**	2,500
	154,050	213,213

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25. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

26. INTEREST-BEARING BANK BORROWINGS

		Group		Company	
		2006	2005	2006	2005
	Maturity	HK$'000	HK$'000	HK$'000	HK$'000
Current					
Bank loans – unsecured	2007	62,571	97,595	28,571	31,250
Bank loans – secured	2007	5,000	3,480	–	–
Trust receipt loans	2007	1,362	6,495	–	–
		68,933	107,570	28,571	31,250
Non-current					
Bank loans – unsecured	2008 – 2009	169,429	93,750	169,429	93,750
		238,362	201,320	198,000	125,000

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Analysed into:				
Bank loans and trust receipt loans repayable:				
Within one year	68,933	107,570	28,571	31,250
In the second year	112,284	62,500	112,284	62,500
In the third to fifth years, inclusive	57,145	31,250	57,145	31,250
	238,362	201,320	198,000	125,000

26. INTEREST-BEARING BANK BORROWINGS *(continued)*

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Other secured bank loans	**5,000**	**1,362**	3,480	6,495
Bank loans – unsecured	**34,000**	**198,000**	66,345	125,000

Notes:

(i) The effective interest rate of the Company's bank loan is HIBOR plus 1.1% and are denominated in Hong Kong dollars. Other than the Company's bank loan, the remaining bank loans of the Group are denominated in RMB with effective interest rates ranging from 5.022% to 6.138%.

(ii) As at 31 December 2006, the Group's banking facilities were supported by:

(a) the prepaid land lease payments, an investment property and leasehold buildings in Mainland China owned by the Group (notes 13, 14 and 15);

(b) the pledge of bank deposits of approximately HK$5,199,000 (2005: HK$9,340,000); and

(c) corporate guarantees from the Company and certain of its subsidiaries.

The long term bank loans do not bear interest at fixed rates, so the fair values of the non-current borrowing are not materially different from their book values. The carrying amounts of short-term borrowings approximate to their fair values.

27. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Revaluation of properties *HK$'000*
At 1 January 2005	657
Deferred tax debited to equity during the year	1,016
Gross deferred tax liabilities at 31 December 2005	1,673
Deferred tax debited to equity during the year	177
Gross deferred tax liabilities at 31 December 2006	1,850

Deferred tax assets

Group

	Depreciation in excess of related depreciation allowance *HK$'000*
At 1 January 2005, 31 December 2005, 1 January 2006 and 31 December 2006	130
Net deferred tax liabilities at 31 December 2005	1,543
Net deferred tax liabilities at 31 December 2006	1,720

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

At 31 December 2006, the Company has no significant unrecognised deferred tax asset/liability (2005: Nil).

28. SHARE CAPITAL

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
3,371,500,000 (2005: 3,299,500,000) ordinary shares of HK$0.01 each	**33,715**	32,995

The following changes in the Company's issued share capital took place during the year:

	Number of ordinary shares in issue	Issued share capital	Share premium account	Total
		HK$	*HK$'000*	*HK$'000*
Issued:				
As at 1 January 2006	3,299,500,000	32,995	87,208	120,203
Exercise of share options	72,000,000	720	13,228	13,948
Transfer of share option reserve upon exercise of share options	–	–	1,845	1,845
As at 31 December 2006	3,371,500,000	33,715	102,281	135,996

During the year, an aggregate of 72,000,000 share options were exercised by the directors and employees of the Group, resulting in the issue of 72,000,000 shares of HK$0.01 each for a total cash consideration of HK$13,948,000. The excess of the net proceeds over the nominal values of the shares issued of HK$13,228,000 was credited to the share premium account.

Subsequent to the balance sheet date, on 22 January 2007, the Company issued 645,000,000 new shares to Landmark immediately following to the placement of 645,000,000 existing shares by Landmark to independent third parties, details of which are set out in note 38 to the financial statements. Consequently, the Company's issued capital increased to 4,016,500,000 ordinary shares up to the date of these financial statements.

28. SHARE CAPITAL *(continued)*

Share option schemes

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

29. SHARE OPTION SCHEMES

Pursuant to an ordinary resolution passed at the shareholders' meeting of the Company held on 10 June 2002, a new share option scheme of the Company (the "New Scheme") was adopted by the Company. The New Scheme replaced the share option scheme adopted on 7 December 2000 (the "Old Scheme"). After the adoption of the New Scheme, no further options can be granted under the Old Scheme. As at 31 December 2005 and 2006, there were no outstanding share options under the Old Scheme. The New Scheme became effective on 24 June 2002, and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include all directors and any full-time employee of the Company or any of its subsidiaries and any suppliers, consultants or advisers who will provide or have provided services to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme may not exceed 10% of the shares of the Company in issue. The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing an aggregate value of over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the official, closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange on the date of each grant, in excess of HK$5 million, are subject to shareholders' approval in a general meeting.

29. SHARE OPTION SCHEMES *(continued)*

The period within which the options must be exercised will be determined by the board of directors of the Company at its absolute discretion. This period will expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 21 days from the date of the offer, and the amount payable on acceptance of an offer is HK$1.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of the Company on the date of grant.

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

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

	Number of share options							Price of Company's shares***		
Name or category of participant	At 1 January 2006	Granted during the year	Exercised during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** *HK$ per share*	At grant date of options *HK$ per share*	Immediately before the exercise date *HK$ per share*	At exercise date of options *HK$ per share*
Directors										
Mr. Wong Ah Yu	13,000,000	–	(13,000,000)	–	26 July 2005	26 July 2005 to 25 July 2015	0.149	0.14	0.29	0.29
Mr. Wong Ah Yeung	32,000,000	–	(32,000,000)	–	26 July 2005	26 July 2005 to 25 July 2015	0.149	0.14	0.29	0.29
Mr. Choi Wai Sang	5,000,000	–	(5,000,000)	–	26 July 2005	26 July 2005 to 25 July 2015	0.149	0.14	0.29	0.29
	50,000,000	–	(50,000,000)	–						
Other employees										
In aggregate	2,000,000	–	(2,000,000)	–	26 July 2005	26 July 2005 to 25 July 2015	0.149	0.14	0.60	0.61
	–	20,000,000	(20,000,000)	–	17 July 2006	17 July 2006 to 16 July 2016	0.310	0.31	0.60	0.61
	2,000,000	20,000,000	(22,000,000)	–						
	52,000,000	20,000,000	(72,000,000)	–						

29. SHARE OPTION SCHEMES *(continued)*

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** 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.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the date on which the options were exercised over all of the exercises of options within the disclosure line.

The fair value of the share options granted during the year was HK$770,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

Dividend yield (%)	4.19
Expected volatility (%)	45.00
Risk-free interest rate (%)	4.29
Expected life of option (year)	0.50
Closing share price at the date of grant (HK$)	0.31
Exercise price (HK$)	0.31

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date and up to the date of approval of these financial statements, the Company had no share options outstanding under the New Scheme.

The 72,000,000 share options exercised during the year resulted in the issue of 72,000,000 ordinary shares of the Company and new share capital of HK$720,000 and share premium of HK$13,228,000 as further details in note 28 to the financial statements.

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 of the financial statements.

The capital reserve of the Group represents principally the excess fair values ascribed to the net underlying assets of certain subsidiaries acquired prior to the Group's reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, over the purchase consideration paid therefor.

In accordance with the Macau Commercial Codes, Tongda Overseas Macao Commercial Offshore Limited ("Tongda Macao"), a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to a statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund. The statutory reserve may be utilised by the entity for certain restricted purposes including the set off against accumulated losses, if any, arising under certain specified circumstances. As the reserve reaches 50% of Tongda Macao's capital fund, no transfer was made in the current year (2005: Nil).

30. RESERVES *(continued)*

(b) Company

	Share premium account	Share option reserve	Contributed surplus	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	87,208	–	79,179	108,519	274,906
Equity-settled share option arrangements	–	1,075	–	–	1,075
Profit for the year	–	–	–	9,972	9,972
Interim 2005 dividend	–	–	–	(16,497)	(16,497)
Special 2005 dividend	–	–	–	(6,599)	(6,599)
Proposed 2005 final dividend	–	–	–	(16,497)	(16,497)
At 31 December 2005 and 1 January 2006	87,208	1,075	79,179	78,898	246,360
Equity-settled share option arrangements	–	770	–	–	770
Exercise of share options	13,228	–	–	–	13,228
Transfer of share option reserve upon exercise of share options	1,845	(1,845)	–	–	–
Loss for the year	–	–	–	(15,699)	(15,699)
Interim 2006 dividend – *note 11*	–	–	–	(26,796)	(26,796)
Proposed final 2006 dividend – *note 11*	–	–	–	(32,132)	(32,132)
At 31 December 2006	102,281	–	79,179	4,271	185,731

30. RESERVES *(continued)*

(b) Company *(continued)*

(i) Under the Companies Law (2004 Revision) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) As at 31 December 2006, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK$185,731,000, subject to the restriction stated in note (i) above.

(iii) The contributed surplus of the Company arose as a result of the Group's reorganisation completed on 7 December 2000 in preparation of the listing of the Company's shares, and represents the excess of the combined net assets of the subsidiaries then acquired by the Company, over the nominal value of the share capital of the Company issued in exchange therefor.

The share option reserve comprises the fair value of share options granted which are yet to be exercised as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount was transferred to the share premium account when the related options were exercised during the year.

31. DISPOSAL OF A SUBSIDIARY

	2006 *HK$'000*	2005 *HK$'000*
Net assets disposed of:		
Property, plant and equipment	–	32,237
Prepaid land lease payments	–	825
Inventories	–	11,990
Trade and bills receivables	–	58,620
Prepayments, deposits, and other receivables	–	2,567
Cash and bank balances	–	12,596
Trade and bills payables	–	(27,193)
Interest-bearing bank borrowings	–	(29,808)
Accrued liabilities and other payables	–	(5,270)
Shareholder's loan	–	(44,149)
	–	12,415
Exchange fluctuation reserve released on disposal	–	(205)
Assignment of a loan	–	44,149
Loss on disposal	–	(1,374)
Consideration	–	54,985
Satisfied by:		
Cash	–	12,000
Other receivable	–	42,985
	–	54,985

An analysis of the net inflow of cash and cash equivalents in respect of the disposal is as follows:

	2006 *HK$'000*	2005 *HK$'000*
Cash consideration	–	12,000
Cash and bank balances disposed of	–	(12,596)
	–	(596)
Partial settlement of an other receivable	–	10,790
Net inflow of cash and cash equivalents in respect of the disposal	–	10,194

32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, a dividend of HK$2,500,000 receivable from an associate was settled through the current account with that associate.

33. CONTINGENT LIABILITIES

As at the balance sheet date, the Group had contingent liabilities in respect of outstanding irrevocable letters of credit of HK$24 million (2005: HK$44 million).

In addition, the Company had contingent liabilities in respect of corporate guarantees provided for banking facilities for certain subsidiaries, which were utilised to the extent of HK$39.9 million (2005: HK$68.1 million) at the balance sheet date.

Save as disclosed above, neither the Group, nor the Company, had any significant contingent liabilities at the balance sheet date.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms of two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,275**	853
In the second to fifth years, inclusive	**528**	1,208
	1,803	2,061

34. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain of its use of land under operating lease arrangements which are negotiated for a lease term of 50 years. In addition, the Group leases certain of its offices properties under operating lease arrangements. Leases for properties are negotiated for terms of over five years.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**4,572**	145
In the second to fifth years, inclusive	**14,671**	601
After five years	**12,419**	9,038
	31,662	9,784

35. COMMITMENTS

In addition to the operating lease commitments set out in note 34(b) above, the Group had the following capital commitments contracted but not provided for at the balance sheet date:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Purchases of property, plant and equipment	**1,568**	10,615
Construction of factory buildings in Mainland China	**3,700**	8,845
Investments in subsidiaries	**46,000**	22,579
	51,268	42,039

The Company had no significant commitments at the balance sheet date (2005: Nil).

31 December 2006

36. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Associates:			
Sales of products	(i)	**15,674**	13,434
Purchases of raw materials and finished goods	(ii)	**2,129**	1,759
Technology consultancy fee	(iii)	**600**	600
Rental income	(iv)	**576**	499
A jointly-controlled entity:			
Sales of raw materials	(i)	**1,696**	–
Sales of machinery	(i)	**1,607**	–
Purchases of raw materials and finished goods	(ii)	**13,407**	577
Rental income	(iv)	**1,203**	522
A related company in which a director of the Company is a shareholder			
Sales of finished goods	(v)	**–**	923
Sales of machinery	(v)	**69**	–

(a) *Notes:*

(i) The sales to the associates and jointly-controlled entity were made according to the terms similar to those offered to the Group's non-related customers.

(ii) The purchases from the associates and a jointly-controlled entity were made according to the terms similar to those offered to the Group's non-related suppliers.

(iii) The technology consultancy fee was received from an associate for the provision of technology support provided by the Group charged at HK$50,000 (2005: HK$50,000) per month.

(iv) The rental income received from an associate and a jointly-controlled entity represented the leasing of factory premises and staff quarters of the Group located at Shenzhen, the PRC and Xiamen, the PRC, respectively.

(v) During the year, the Group sold machinery (2005: finished goods) to 福建石獅通達電機有限公司, a company owned as to 7.5% by Mr. Wang Ya Nan, a director of the Company. The selling price was determined with reference to the published prices offered to the Group's non-related customers.

36. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balances with related parties

Details of the Group's balances with its associates and jointly-controlled entity as at the balance sheet date are disclosed in notes 17 and 18 to the financial statements, respectively.

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

	2006 *HK$'000*	2005 *HK$'000*
Short term employee benefits	6,052	4,885
Post-employment benefits	186	198
Share-based payments	770	1,075
Total compensation paid to key management personnel	7,008	6,158

Further details of directors' emoluments are included in note 8 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank loans, other interest-bearing loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts that the Group maintain about 84% of its interest-bearing borrowings at floating interest rates. To minimise possible interest rate exposure, the floating interest rate is usually fixed by the Group on a quarterly basis. For those short term loans, a fixed interest rate for a period of 90 days to 120 days is maintained.

Foreign currency risk

The Group carries on its trading transactions mainly in Hong Kong dollars and RMB. Approximately 70% (2005: 70%) of the Group's sales and purchases transactions are denominated in RMB while the remaining balance of sales and purchases transactions denominated mainly in Hong Kong dollars. As the foreign currencies risks generated from the sales and purchases can be set off with each other, the foreign currency risk is minimal for the Group. It is the policy of the Group to continue maintaining the balance of its sales and purchases in the same currency.

31 December 2006

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk ***(continued)***

Considering the appreciation of RMB, the Group will maintain a comparatively higher level of Hong Kong dollars borrowings than RMB borrowings to minimise the possible currency risk therefrom.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and on an individual basis. Each of the customers has been attached with a trading limit and any excess to the limit must be approved by the general manager of the operation unit. Under the tight control of the credit term and detailed assessment to the creditworthiness of individual customers, the Group's exposure to bad debts is maintained as minimal.

There is no other credit risk of the Group under other financial assets such as cash and cash equivalents.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking loans and other banking facilities such as trust receipt loans. To improve the liquidity of the Group, it is the Group's policy is to maintain more than 50% of its total bank loans at a maturity date more than 12 months. As at 31 December 2006, the Group's interest-bearing bank loans with maturity date more than 12 months is 71% (2005: 47%) of the total bank loans.

38. POST BALANCE SHEET EVENTS

(a) On 22 January 2007, 645,000,000 new shares were allotted and issued at an issue price HK$0.6 per share. The subscription of these new shares was immediate following a placement of 645,000,000 existing shares in the Company by Landmark at the same price to independent third parties pursuant to a subscription agreement dated 22 January 2007. This placement raised net cash proceeds of approximately HK$376 million.

(b) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law on the Group cannot be reasonably estimated at this stage.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2007.