1. CORPORATE INFORMATION

Man Yue International Holdings Limited (the "Company") was incorporated in Bermuda with limited liability.

During the year, the principal activities of the Group consist of the manufacturing and trading of electronic components and the trading of raw materials.

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 (the "HKICPA"), 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 certain buildings, derivative financial instruments and equity investments, 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 where otherwise indicated.

Basis of consolidation

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

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

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 27 *Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements, as described in note 2.4 "Summary of significant accounting policies" below.

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

(i) Amendment for financial guarantee contracts

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

(ii) Amendment for the fair value option

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

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

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

(d) 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 effect 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

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

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

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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.

Jointly controlled entities

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 jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly controlled entities 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 goodwill), 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 in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

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

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

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 its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2%
Machinery and equipment	9% – 20%
Furniture and fixtures	18% – 20%
Motor vehicles	18% – 20%
Leasehold improvements	9% – 20%

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

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

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

Construction in progress represents factory buildings, office premises and workers' dormitories and related infrastructure projects under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)
The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Technology know–how
Technology know–how was acquired for use in the production of certain high technology electronic components. Expenditure incurred on the acquisition of technology know–how is capitalised and stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight–line basis over the useful life of the technology know–how of five years.

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on the straight–line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight–line basis over the lease terms.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

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

Available–for–sale financial assets

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

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

Fair value

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of 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 amount. The amount of the impairment loss is recognised in the income statement.

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

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

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

Assets carried at cost

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

Available–for–sale financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

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

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

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

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

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

Interest–bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest–bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. 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 the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have actually been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedging (continued)
Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately to the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non–financial asset or non–financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non–financial asset or non–financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

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 overheads. 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)

Trade and other receivables

Trade and other receivables generally have credit terms ranging from 15 to 150 days.

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, which are not restricted as to use.

Trade and other payables

Liabilities for trade and other payables, which are normally settled on terms of 7 to 120 days, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Provision

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

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 goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, 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 interests in joint ventures, 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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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.

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

Interest income is recognised 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Share Option Scheme

The Group 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.

The cost of granting share option to employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial model, further details of which are given in note 32 to the financial statements. In valuing the granting of share option, no account is taken of any performance conditions, other than conditions linked to the historical price of the shares of the Company ("market conditions"), if applicable.

The cost of granting of share option 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 granting of share option 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.

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

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees on or before 7 November 2002.

The financial impact of share options granted to employees on or before 7 November 2002 under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Employment Ordinance long service payments

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Pension schemes

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, 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. 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 and jointly controlled entities are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There is no deferred tax assets relating to recognised tax losses at 31 December 2006. The amount of unrecognised cumulative tax losses at 31 December 2006 was HK$24,048,000 (2005: HK$24,864,000). Further details are contained in note 29 to the financial statements.

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) secondary segment reporting basis, by geographical segment. No further business segment information is presented as over 90% of the Group's revenue and assets relate to the manufacture and trading of electronic components and electrical products.

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.

Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Taiwan		Southeast Asia		Korea		Other countries		Consolidated	
	2006	2005	**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	**HK$'000**	HK$'000
Segment revenue:														
Sales to external customers	**219,992**	160,292	**274,745**	263,345	**398,649**	342,618	**221,141**	191,814	**103,921**	124,291	**20,671**	21,774	**1,239,119**	1,104,134
Other segment information:														
Segment assets	**197,274**	162,794	**851,099**	703,951	**56,313**	42,364	**52,601**	51,638	**15,747**	16,535	**8,797**	3,014	**1,181,831**	980,296
Interests in jointly controlled entities	**-**	–	**33,453**	24,457	**-**	–	**-**	–	**-**	–	**-**	–	**33,453**	24,457
Unallocated assets													**19,110**	18,381
													1,234,394	1,023,134
Capital expenditure	**47,396**	2,605	**138,707**	128,611	**-**	–	**-**	–	**-**	–	**-**	177	**186,103**	131,393

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for trade returns and discounts.

An analysis of revenue is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Manufacture and trading of electronic components	**1,182,429**	1,048,550
Trading of raw materials	**56,690**	55,584
	1,239,119	1,104,134

6. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest expenses on bank loans, overdrafts and other loans (note)	**20,822**	11,314
Interest on finance leases	**113**	288
	20,935	11,602

Note: The Group has capitalised interest of HK$229,000 (2005: Nil) in the items of property, plant and equipment and such amount has been netted against interest expenses on bank loans.

7. PROFIT BEFORE TAX

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

	2006 **HK$'000**	2005 HK$'000
Staff costs (including directors' remuneration):		
Wages and salaries	**119,684**	100,944
Costs in the granting of share option (note 32)	**6,174**	–
Pension scheme contributions	**2,141**	1,969
Provision/(reversal of unutilised amounts) for long service payments (note 28)	**(1,287)**	567
	126,712	103,480
Cost of inventories sold	**768,405**	699,776
Minimum lease payments under operating leases for land and buildings	**13,432**	12,355
Depreciation for items of property, plant and equipment (note 14)	**46,446**	36,548
Recognition of prepaid land premium (note 15)	**894**	663
Amortisation of other intangible assets* (note 16)	**183**	187
Impairment of goodwill**	**–**	484
Impairment of trade receivables, net	**567**	3,935
Auditors' remuneration	**1,380**	1,100
Foreign exchange losses, net	**10,583**	704
Loss on disposal of items of property, plant and equipment	**234**	2,321
Write-down of inventories to net realisable value	**539**	1,422
Fair value loss on short term investments	**26**	29
Fair value gain on derivative instruments – transactions not qualifying as hedges	**–**	(655)
Bank interest income	**(1,102)**	(557)
Deferred income recognised as income	**(247)**	(248)
Dividend income from listed investments	**(1,008)**	(1,189)
Gain on disposal of investment on a jointly controlled entity	**(4,800)**	–
Reinvestment tax credit	**(7,077)**	–
Realised gain on disposal of available-for-sale investments, net	**(788)**	(37)

* The amortisation of other intangible assets for the year is included in "Cost of sales" on the face of the consolidated income statement.

** The impairment of goodwill included in "Other operating expenses" on the face of the consolidated income statement.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Fees	**747**	649
Other emoluments:		
Salaries and allowances	**4,976**	4,634
Discretionary bonuses	**5,405**	4,633
Costs in the granting of share option	**1,028**	–
Pension scheme contributions	**24**	24
Total directors' remuneration	**12,180**	9,940

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been recognised to the income statements over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Fees

The fees paid to Independent Non–Executive Directors during the year were as follows:

	2006	2005
	HK$'000	HK$'000
Mar, Selwyn	**240**	222
Li Sau Hung, Eddy	**283**	240
Lo Kwok Kwei, David	**224**	187
	747	649

There were no other emoluments payable to the Independent Non–Executive Directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Other emoluments

	Salaries and allowances HK$'000	Discretionary bonuses HK$'000	Costs in the granting of share option HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Chan Ho Sing	4,160	5,000	–	12	9,172
Ko Pak On	816	405	1,028	12	2,261
	4,976	5,405	1,028	24	11,433
2005					
Executive directors:					
Chan Ho Sing	3,860	4,300	–	12	8,172
Ko Pak On	774	333	–	12	1,119
	4,634	4,633	–	24	9,291

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2005: three) non–director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries and allowances	**5,026**	3,951
Discretionary bonuses	**900**	505
Costs in the granting of share option	**2,268**	–
Pension scheme contributions	**36**	36
	8,230	4,492

9. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

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

	Number of employees	
	2006	2005
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**1**	–
	3	3

10. TAX

	Group	
	2006	2005
	HK$'000	HK$'000
Charge for the year:		
Current:		
Hong Kong	**4,027**	6,403
Mainland China	**7,191**	3,914
Overseas	**6**	6
	11,224	10,323
Deferred (note 29)	**2,642**	711
Total tax charge for the year	**13,866**	11,034

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 jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax rules and regulations in Mainland China, certain of the Company's subsidiaries in Mainland China enjoy tax exemptions and reductions. Certain subsidiaries in Mainland China are subject to income taxes at applicable rates ranging from 10% to 33%.

The tax affairs of certain subsidiaries of the Group for prior years are currently under review by the Hong Kong Inland Revenue Department. Whilst management considers that the subsidiaries have grounds to support their tax position for prior years, the outcome of the review remains undetermined at the date of this report. The directors of the Company, after consultation with the Company's tax advisers, consider that it is premature to estimate the amount of potential liabilities, if any, that may arise from the review and accordingly no additional tax provision has been made in the financial statements as at 31 December 2006.

10. TAX (CONTINUED)

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

Group – 2006

	Hong Kong		Mainland China		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	13,139		113,794		8,620		135,553	
Tax at the statutory tax rate	2,299	17.5	11,379	10.0	759	8.8	14,437	10.7
Lower tax rate for specific local authority	–		(3,463)		(803)		(4,266)	
Profits and losses attributable to jointly controlled entities	–		(150)		–		(150)	
Income not subject to tax	(2,557)		(186)		–		(2,743)	
Expenses not deductible for tax	4,688		2,075		50		6,813	
Tax losses utilised from previous periods	(408)		–		–		(408)	
Tax losses not recognised	183		–		–		183	
Tax charge at the Group's effective rate	4,205	32.0	9,655	8.5	6	0.1	13,866	10.2

Group – 2005

	Hong Kong		Mainland China		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	38,715		68,904		(889)		106,730	
Tax at the statutory tax rate	6,775	17.5	6,890	10.0	(78)	8.8	13,587	12.7
Lower tax rate for specific local authority	–		(1,138)		–		(1,138)	
Income not subject to tax	(864)		(1,673)		–		(2,537)	
Expenses not deductible for tax	707		–		–		707	
Tax losses utilised from previous periods	(577)		–		–		(577)	
Tax losses not recognised	914		–		78		992	
Tax charge at the Group's effective rate	6,955	18.0	4,079	5.9	–	–	11,034	10.3

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit for the year attributable to equity holders of the Company for the year ended 31 December 2006 includes a profit of HK$35,324,000 (2005: HK$18,450,000) which has been dealt with in the financial statements of the Company (note 33).

12. DIVIDENDS

	2006 **HK$'000**	2005 HK$'000
2005		
Additional 2005 final dividend	**276**	–
2006		
Interim – HK2.0 cents (2005: HK1.5 cents) per ordinary share	**8,799**	6,133
Proposed final – HK3.5 cents (2005: HK2.0 cents) per ordinary share	**16,540**	8,305
	25,615	14,438

Subsequent to the approval of the 2005 financial statements and prior to the book close period of the 2005 final dividends, an additional 13,800,000 ordinary shares were issued by the Company as a result of share options being exercised by the employees. Accordingly, an additional 2005 final dividend amounted to HK$276,000 were paid in 2006.

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

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$121,657,000 (2005: HK$95,696,000), and the weighted average of 427,121,000 (2005: 386,558,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$121,657,000 (2005: HK$95,696,000). The weighted average number of ordinary shares used in the calculation is the weighted average of 427,121,000 (2005: 386,558,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 6,529,000 (2005: 29,417,000) and 4,600,000 (2005: 5,186,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants and share options, respectively, during the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improve-ments HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006							
At 31 December 2005 and at 1 January 2006:							
Cost or valuation	64,844	421,326	15,064	9,222	22,227	13,591	546,274
Accumulated depreciation	-	(137,405)	(10,000)	(2,963)	(19,386)	-	(169,754)
Net carrying amount	64,844	283,921	5,064	6,259	2,841	13,591	376,520
At 1 January 2006, net of accumulated depreciation	64,844	283,921	5,064	6,259	2,841	13,591	376,520
Additions	17,297	88,672	2,652	1,286	123	47,373	157,403
Disposals	-	(2,547)	(48)	(236)	(55)	-	(2,886)
Surplus on revaluation	170	-	-	-	-	-	170
Depreciation provided during the year	(2,445)	(40,275)	(1,390)	(1,573)	(763)	-	(46,446)
Transfers	8,226	1,025	1,998	-	-	(11,249)	-
Exchange adjustments	2,171	10,263	197	137	53	1,486	14,307
At 31 December 2006, net of accumulated depreciation	90,263	341,059	8,473	5,873	2,199	51,201	499,068
At 31 December 2006:							
Cost or valuation	90,263	521,286	19,911	10,645	22,403	51,201	715,709
Accumulated depreciation	–	(180,227)	(11,438)	(4,772)	(20,204)	–	(216,641)
Net carrying amount	90,263	341,059	8,473	5,873	2,199	51,201	499,068
Analysis of cost or valuation:							
At cost	–	521,286	19,911	10,645	22,403	51,201	625,446
At 2006 valuation	90,263	–	–	–	–	–	90,263
	90,263	521,286	19,911	10,645	22,403	51,201	715,709

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

	Buildings HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improve-ments HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost or valuation	6,265	337,658	12,965	5,497	24,853	17,764	405,002
Accumulated depreciation	–	(103,790)	(9,346)	(2,578)	(17,406)	–	(133,120)
Net carrying amount	6,265	233,868	3,619	2,919	7,447	17,764	271,882
At 1 January 2005, net of accumulated depreciation	6,265	233,868	3,619	2,919	7,447	17,764	271,882
Additions	539	75,691	2,518	4,196	116	48,333	131,393
Disposals	–	(99)	(137)	–	(2,148)	–	(2,384)
Surplus on revaluation	6,353	–	–	–	–	–	6,353
Depreciation provided during the year	(533)	(31,389)	(997)	(908)	(2,721)	–	(36,548)
Transfers	52,220	692	–	–	–	(52,912)	–
Exchange adjustments	–	5,158	61	52	147	406	5,824
At 31 December 2005, net of accumulated depreciation	64,844	283,921	5,064	6,259	2,841	13,591	376,520
At 31 December 2005:							
Cost or valuation	64,844	421,326	15,064	9,222	22,227	13,591	546,274
Accumulated depreciation	–	(137,405)	(10,000)	(2,963)	(19,386)	–	(169,754)
Net carrying amount	64,844	283,921	5,064	6,259	2,841	13,591	376,520
Analysis of cost or valuation:							
At cost	–	421,326	15,064	9,222	22,227	13,591	481,430
At 2005 valuation	64,844	–	–	–	–	–	64,844
	64,844	421,326	15,064	9,222	22,227	13,591	546,274

The net book value of the Group's property, plant and machinery held under finance leases included in the total amount of motor vehicles at 31 December 2006 amounted to HK$1,095,000 (2005: HK$7,584,000).

The Group's buildings were revalued individually at 31 December 2006 by Chung, Chan & Associates, independent chartered surveyors, at an aggregate open market value of HK$90,263,000 based on their existing use. A revaluation surplus of HK$170,000, resulting from the above valuations, together with deferred tax debit of HK$20,000, has been included in the asset revaluation reserve. Had these buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying values would have been approximately HK$87,476,000 (2005: HK$57,398,000).

15. PREPAID LAND PREMIUMS

Group

	2006 **HK$'000**	2005 HK$'000
Carrying amount at 1 January	**31,512**	31,655
Additions	**28,700**	–
Recognised during the year	**(894)**	(663)
Exchange realignment	**806**	520
Carrying amount at 31 December	**60,124**	31,512
Current portion included in prepayments, deposits and other receivables	**(966)**	(663)
Non–current portion	**59,158**	30,849

An analysis of the Group's leasehold land is as follows:

	2006 **HK$'000**	2005 HK$'000
Medium term leases:		
Hong Kong	**37,041**	8,764
Mainland China	**23,083**	22,748
	60,124	31,512

16. OTHER INTANGIBLE ASSET

Group

	Technology know-how	
	2006	2005
	HK$'000	HK$'000
Cost at 1 January, net of accumulated amortisation	**270**	447
Amortisation provided during the year	**(183)**	(187)
Exchange realignment	**7**	10
At 31 December	**94**	270
At 31 December:		
Cost	**1,319**	1,319
Accumulated amortisation	**(1,225)**	(1,049)
Net carrying amount	**94**	270

17. INTERESTS IN SUBSIDIARIES

Company

	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**63,823**	63,823
Due from subsidiaries	**368,229**	363,324
Due to a subsidiary	**(5,687)**	(5,687)
	426,365	421,460

17. INTERESTS IN SUBSIDIARIES (CONTINUED)

The amounts due from/to subsidiaries are unsecured, interest–free and have no fixed terms of repayment. The carrying amounts of these balances with subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid–up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
Dongguan Ostor-Samxon Electronics Co. Ltd.#	People's Republic of China	Registered US$4,247,000	**100***	100*	Manufacture and sale of electronic components
Johnstone International Limited	British Virgin Islands/Hong Kong	Ordinary US$1	**100***	100*	Investment holding
Long Trade (Macao Commercial Offshore) Limited	Macau	Registered MOP100,000	**100***	100*	Trading of raw materials
Man Fat International Trading (Shanghai) Co., Limited#	People's Republic of China	Registered US$200,000	**100***	100*	Trading of electronic components
Man Yue Electronics Company Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$3,000,000	**100***	100*	Trading of electronic components
Man Yue Holdings (BVI) Limited	British Virgin Islands/Hong Kong	Ordinary US$10,000	**100**	100	Investment holding
Man Yue Technology Limited	British Virgin Islands/Hong Kong	Ordinary US$10	**100***	100*	Investment holding
MMS Electronics Company Limited	Hong Kong	Ordinary HK$1	**100***	100*	Trading of electronic components

17. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
MMS Logistics Company Limited	Hong Kong	Ordinary HK$10,000	100*	100*	Trading of electronic components
Rifeng Qingyuan Electronic Company Limited#	People's Republic of China	Registered HK$80,000,000	100*	100*	Manufacture and sale of raw materials
Samxon Electronic Components LLC	USA	Contributed US$1,000	100*	100*	Provision of customer services
Samxon Electronics (Dongguan) Co., Limited#	People's Republic of China	Registered US$35,153,900	100*	100*	Manufacture and sale of electronic components
Searange Investment Limited	Hong Kong	Ordinary HK$2	100*	100*	Investment holding
Splendid Skills Holdings Limited	British Virgin Islands/Hong Kong	Ordinary US$10	100*	100*	Investment holding
Stand New Enterprise Limited	Hong Kong	Ordinary HK$1	100*	100*	Investment holding
TradeUNIT Limited	British Virgin Islands/Hong Kong	Ordinary HK$9,500,000	100*	100*	Trading of raw materials and electronic components
Wuxi Heli Electronic Co., Limited#	People's Republic of China	Registered US$3,000,000	100*	100*	Manufacture and sale of electronic components
Wuxi Man Yue Electronic Company Limited#	People's Republic of China	Registered US$20,000,000	100*	100*	Manufacture and sale of electronic components

17. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid–up/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Xin Jiang Join Yue Electronics New Materials Company Limited#	People's Republic of China	Registered US$1,200,000	100*	–	Manufacture and sale of raw materials
Man Jin Electronics (Shenzhen) Company Limited#	People's Republic of China	Registered HK$600,000	100*	–	Trading of electronic components

* Held indirectly through subsidiaries

The subsidiaries are registered as wholly–foreign–owned enterprises under the PRC law

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

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

Group

	2006 HK$'000	2005 HK$'000
Share of net assets	**3,679**	4,011
Due from jointly controlled entities	**31,544**	23,464
Due to jointly controlled entities	**(1,770)**	(3,018)
	33,453	24,457

The amounts due from/to jointly controlled entities are unsecured, interest–free and have no fixed terms of repayment. The carrying amounts of these balances with jointly controlled entities approximate to their fair values.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

Particulars of the principal jointly controlled entities, all of which are held indirectly through subsidiaries, are as follows:

Name	Particulars of issued share held	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Ever Reliance Industrial Investments Limited ("Ever Reliance")	Ordinary shares of HK$1 each	Hong Kong	48	50	48	Investment holding
Foshan Rifeng Electronic Co., Ltd.	Registered capital of US$1,000,000	People's Republic of China	33	33	33	Manufacture and sale of raw materials
Nan Tong Xin Cheng Electronics Co., Ltd.	Registered capital of HK$6,080,000	People's Republic of China	49	33	49	Manufacture and sale of raw materials

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

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

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

Group

	2006 HK$'000	2005 HK$'000
Share of the jointly controlled entities' assets and liabilities:		
Non–current assets	**60,978**	21,598
Current assets	**4,980**	5,596
Current liabilities	**(62,279)**	(23,183)
Net assets	**3,679**	4,011
Share of the jointly controlled entities' results:		
Revenue	**13,477**	12,684
Other income	**–**	339
Total revenue	**13,477**	13,023
Total expenses	**(11,986)**	(11,798)
Profit after tax	**1,491**	1,225

Pursuant to a shareholders agreement dated 24 January 2005, the shareholders of Ever Reliance, namely Man Yue Technology Limited (a wholly–owned subsidiary of the Company), Golden Faith Mfg. Limited and Wintop Intertrade Limited, are committed to contribute non–interest–bearing shareholders' loans of HK$28,800,000, HK$29,400,000 and HK$1,800,000 respectively to Ever Reliance in accordance with their shareholding percentage. As at 31 December 2006, the Group has contributed HK$28,800,000 (2005: HK$23,328,000) to Ever Reliance as shareholders' loans.

19. INVENTORIES

Group

	2006 HK$'000	2005 HK$'000
Raw materials	**89,932**	104,851
Work in progress	**21,241**	21,978
Finished goods	**95,297**	95,433
	206,470	222,262

20. TRADE RECEIVABLES

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

Group

	2006		2005	
	HK$'000	**%**	HK$'000	%
Less than 3 months	**237,284**	**83**	207,913	89
4 – 6 months	**40,270**	**14**	23,585	10
7 – 12 months	**9,043**	**3**	3,196	1
Over 1 year	**523**	**–**	218	–
	287,120	**100**	234,912	100

21. AVAILABLE–FOR–SALE INVESTMENTS

Group

	2006	2005
	HK$'000	HK$'000
Non–Hong Kong listed equity investments, at fair value	**17,126**	13,806

The above investments consist of investments in equity securities which were designated as available–for–sale financial assets and have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices.

During the year, the gross gain of the Group's available–for–sale investments recognised directly in equity amounted to HK$5,602,000 (2005: gross loss of HK$943,000), and HK$323,000 (2005: HK$96,000) was removed from equity and recognised in the income statement for the year.

22. SHORT TERM INVESTMENTS

Group

	2006	2005
	HK$'000	HK$'000
Hong Kong listed equity investments, at market value	**90**	116

The above equity investments at 31 December 2006 were classified as held for trading.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**86,633**	47,520	**1,387**	180
Time deposits	**4,003**	34,875	**–**	–
	90,636	82,395	**1,387**	180

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$23,215,000 (2005: HK$35,707,000). 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.

24. TRADE PAYABLES

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

Group

	2006		**2005**	
	HK$'000	**%**	HK$'000	%
Accounts payable:				
Less than 3 months	**97,596**	**76**	95,824	87
4 – 6 months	**27,948**	**22**	12,630	12
7 – 12 months	**674**	**1**	460	–
Over 1 year	**999**	**1**	1,480	1
	127,217	**100**	110,394	100
Bills payable	**45,819**		65,928	
	173,036		176,322	

25. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2006		**2005**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	HK$'000	HK$'000	**HK$'000**	HK$'000
Forward current contracts	**112**	**898**	899	1,667
Interest rate swaps	**–**	**–**	655	–
	112	**898**	1,554	1,667

25. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Forward currency contracts – cash flow hedges

At 31 December 2006, the Group held forward currency contracts designated as hedges in respect of expected future purchases in Japanese Yen ("JPY"). The total notional amount of outstanding forward currency contracts to which the Group is committed amounted to JPY197,271,000. The contracts will mature at various dates between one month to three months from the balance sheet date.

The terms of the forward currency contracts have been negotiated to match the terms of the forecast transactions. The cash flow hedges of the expected future purchases were assessed to be highly effective and a net loss of HK$17,000 (2005: HK$768,000) was included in the hedging reserve.

26. BANK LOANS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current				
Bank loans – unsecured	**144,464**	88,733	**96,364**	57,273
Non-current				
Bank loans – unsecured	**225,664**	221,267	**76,364**	152,727
	370,128	310,000	**172,728**	210,000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**144,464**	88,733	**96,364**	57,273
In the second year	**151,164**	110,683	**76,364**	76,363
In the third to fifth years, inclusive	**74,500**	110,584	**–**	76,364
	370,128	310,000	**172,728**	210,000

All the bank loans of the Group and the Company are denominated in Hong Kong dollars and bear floating interest at a weighted average interest rate of 4.8% per annum. They are repayable by instalments up to 2009. The carrying amounts of the Group's and the Company's bank loans approximate to their fair values.

27. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		**Present value of minimum lease payments**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**422**	2,389	**389**	2,278
In the second year	**263**	422	**251**	389
In the third to fifth years, inclusive	**83**	346	**82**	333
Total minimum finance lease payments	**768**	3,157	**722**	3,000
Future finance charges	**(46)**	(157)		
Total net finance lease payables	**722**	3,000		
Portion classified as current liabilities	**(389)**	(2,278)		
Non–current portion	**333**	722		

Finance lease payables are denominated in Hong Kong dollars and bear interest at a weighted average interest rate of 2.7% per annum. They are repayable by instalments up to 2009.

28. PROVISION FOR LONG SERVICE PAYMENTS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year	**3,076**	2,509	**567**	–
Provision for the year	**–**	567	**–**	567
Reversal of unutilised amounts	**(1,287)**	–	**(32)**	–
At 31 December	**1,789**	3,076	**535**	567

The Group and Company provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group and Company to the balance sheet date.

29. DEFERRED TAX

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

Deferred tax assets

Group

	Depreciation in excess of depreciation allowance HK$'000	**Provisions** HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 January 2005	160	3,020	1,712	4,892
Deferred tax charged to the income statement during the year (note 10)	(160)	–	(355)	(515)
Gross deferred tax assets at 31 December 2005 and 1 January 2006	–	3,020	1,357	4,377
Deferred tax charged to the income statement during the year (note 10)	–	(1,139)	(1,326)	(2,465)
Gross deferred tax assets at 31 December 2006	–	1,881	31	1,912

Deferred tax liabilities

Group

	Revaluation of properties HK$'000	**Depreciation allowance in excess of related depreciation** HK$'000	**Total** HK$'000
At 1 January 2005	–	624	624
Deferred tax charged to the income statement during the year (note 10)	–	196	196
Deferred tax debited to equity during the year	1,885	–	1,885
Gross deferred tax liabilities at 31 December 2005 and 1 January 2006	1,885	820	2,705
Deferred tax charged to the income statement during the year (note 10)	–	177	177
Deferred tax debited to equity during the year	20	–	20
Gross deferred tax liabilities at 31 December 2006	1,905	997	2,902

29. DEFERRED TAX (CONTINUED)

At 31 December 2006, the Group had tax losses arising in Hong Kong of HK$24,048,000 (2005: HK$24,864,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

At 31 December 2006, there is 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 or joint ventures.

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

30. DEFERRED INCOME

The deferred income related to a non–cash subsidy granted by Jiangsu Province Xishan Economic Development Management Committee in 2004 in the form of a reduction of the consideration for the acquisition of a parcel of land in Wuxi, the PRC, paid by the Group. The deferred income amount represented the fair value of the land at the date of acquisition less the total consideration paid by the Group. The purpose of the subsidy is for industrial development in that area.

31. SHARE CAPITAL

Ordinary shares

	2006 **HK$'000**	2005 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
447,231,302 (2005: 413,983,160) ordinary shares of HK$0.10 each	**44,723**	41,398

A summary of the transactions involving the Company's share capital is as follows:

	Number of shares in issue	**Issued capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2005	372,855,666	37,286	73,006	110,292
Share options exercised	1,800,000	180	846	1,026
Warrants exercised	39,327,494	3,932	14,945	18,877
At 31 December 2005 and 1 January 2006	413,983,160	41,398	88,797	130,195
Share options exercised	11,200,000	1,120	7,679	8,799
Warrants exercised	22,048,142	2,205	8,378	10,583
At 31 December 2006	447,231,302	44,723	104,854	149,577

31. SHARE CAPITAL (CONTINUED)

Share options

Details of the Company's share option schemes and the share options issued under the scheme are included in note 32 to the financial statements.

Warrants

On 23 September 2004, the Company proposed a conditional bonus warrant issue to the shareholders of the Company on the register of members on 26 October 2004. The bonus warrant issue was made in the proportion of one warrant for every six ordinary shares of the Company, resulting in 62,142,333 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$0.48 per share, subject to amendment, from 4 November 2004 to 3 November 2006 (both days inclusive). The warrants were issued to the shareholders of the Company on 2 November 2004.

During the year, 22,048,142 (2005: 39,327,494) warrants were exercised for 22,048,142 shares of HK$0.10 each at a price of HK$0.48 per share. At 3 November 2006, 765,031 warrants were lapsed due to the expiry of the warrants.

32. SHARE OPTION SCHEMES

Old Scheme

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

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options* HK$ per share	Price of Company's shares**	
	At 1 January 2006	Exercised during the year	At 31 December 2006				Immediately before the exercise date HK$ per share	At exercise date of options HK$ per share
Directors								
Chan Ho Sing	11,000,000	(11,000,000)	–	30.12.1997	30.12.1997 to 12.2.2007	0.7856	1.83	1.855
Ko Pak On	1,500,000	–	1,500,000	30.12.1997	30.12.1997 to 12.2.2007	0.7856	N/A	N/A
Other employees								
In aggregate	300,000	(200,000)	100,000	30.12.1997	30.12.1997 to 12.2.2007	0.7856	1.55	1.55
	12,800,000	(11,200,000)	1,600,000					

* 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 prices of the Company's shares disclosed immediately before the exercise date and as at the date of exercise of the share options are the weighted average of the Stock Exchange closing prices immediately before the dates and as at the dates on which the options were exercised over all of the exercises of options within the disclosure line, respectively.

32. SHARE OPTION SCHEMES (CONTINUED)

On 13 February 1997, the Company adopted a share option scheme (the "Old 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 Old Scheme include any executive director or employee (excluding Independent Non–Executive Directors) of the Group. The Old Scheme is effective from 13 February 1997 to 12 February 2007.

The subscription price is determined by the directors and is the higher of a price not less than 80% of the average closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of grant of the options and the nominal value of the shares.

The maximum number of shares on which options may be granted under the Old Scheme may not exceed 10% of the ordinary share capital of the Company in issue from time to time. The offer of a grant of share options may be accepted within 40 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

Subsequent to the adoption of the Old Scheme, the Stock Exchange has introduced a number of amendments to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. Options granted by the Company under the Old Scheme after 1 September 2001 are subject to the new rules which include, inter alia, the following:

(a) the maximum number of shares issuable under share options to each eligible participant within any 12–month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting;

(b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non–executive directors; and

(c) the exercise price of share options is determined by the directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of grant.

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

The 11,200,000 share options exercised under the Old Scheme during the year resulted in the issue of 11,200,000 ordinary shares of the Company and new share capital of HK$1,120,000 and share premium of approximately HK$7,679,000 (before issue expenses), as further detailed in note 31 to the financial statements.

At 31 December 2006, the exercise in full of the outstanding share options under the Old Scheme would, under the present capital structure of the Company, result in the issue of 1,600,000 additional ordinary shares of the Company and additional share capital of HK$160,000 and share premium of approximately HK$1,097,000 (before issue expenses).

32. SHARE OPTION SCHEMES (CONTINUED)

New Scheme

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

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options*	Exercise price of share options** HK$ per share	Share price at grant date of share options*** HK$ per share
	At 1 January 2006	Granted during the year	At 31 December 2006				
Directors							
Chan Ho Sing#	–	200,000	200,000	8.8.2006	8.8.2006 to 25.5.2016	1.60	1.60
	–	200,000	200,000	8.8.2006	8.8.2007 to 25.5.2016	1.60	1.60
	–	400,000	400,000				
Ko Pak On	–	500,000	500,000	8.8.2006	8.8.2006 to 25.5.2016	1.60	1.60
	–	500,000	500,000	8.8.2006	8.8.2007 to 25.5.2016	1.60	1.60
	–	1,000,000	1,000,000				
Other employees							
In aggregate	–	2,600,000	2,600,000	8.8.2006	8.8.2006 to 25.5.2016	1.60	1.60
In aggregate	–	1,600,000	1,600,000	8.8.2006	8.8.2007 to 25.5.2016	1.60	1.60
	–	4,200,000	4,200,000				
	–	5,600,000	5,600,000				

The share options represents interest through Kee Chor Lin, spouse of Chan Ho Sing.

* The vesting period of the share options is from date of 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 grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options.

32. SHARE OPTION SCHEMES (CONTINUED)

On 26 May 2006, the Company adopted a new share option scheme (the "New Scheme") for the purpose of providing incentives and rewards to eligible persons, including employees, directors and other persons as specified under the scheme document, who contribute to the success of the Group's operations.

The New Scheme became effective on 26 May 2006 and will remain in force for 10 years from that date.

The maximum number of the shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 30% of the total number of issued shares from time to time provided that: (a) the total number of shares which may be issued upon exercise of all share options to be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of issued shares on 26 May 2006.

Each grant of the share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, under the New Scheme must comply with the requirements of Rule 17.04 of the Listing Rules and must be subject to approval of the Independent Non–Executive Directors to whom share options have not been granted. In addition, any grant of share options to a substantial shareholder or an 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 to such person in the 12–month period up to and including the date of such grant in excess of 0.1% of the total number of shares of the Company in issue and with an aggregate value in excess of HK$5 million, is subject to prior approval from shareholders in a general meeting.

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

During the year, 5,600,000 share options had been granted under the New Scheme and all of which remained outstanding as at 31 December 2006, representing 1.30% of the shares of the Company in issue at that date. Out of the 5,600,000 share options granted during the year, 3,300,000 share options are exercisable at any time from 8 August 2006 to 25 May 2016, and balance of 2,300,000 share options are exercisable at any time from 8 August 2007 to 25 May 2016.

The fair value of the share options granted during the year was HK$8,135,000 of which the Group recognised a share option expense of HK$6,174,000 in the consolidated income statements during the year ended 31 December 2006.

32. SHARE OPTION SCHEMES (CONTINUED)

The fair value of share options granted during the year was estimated as at the date of grant, using a binomial 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	2.19%
Expected volatility	64.29%
Historical volatility	64.29%
Risk–free interest rate	4.50%
Expected life of option	9 to 10 years
Weighted average share price	HK$1.60

The expected life of the options is based on the historical data over the past year 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 31 December 2006, the Company had 5,600,000 share options outstanding under the New Scheme. 2,300,000 share options are under the vesting period from 8 August 2006 to 7 August 2007. The exercise in full of the outstanding share options under the New Scheme would, under the present capital structure of the Company, result in the issue of 5,600,000 additional ordinary shares of the Company and additional share capital of HK$560,000 and share premium of HK$8,400,000 (before issue expenses).

Subsequent to the balance sheet date, 1,600,000 share options under the Old Scheme and 100,000 share options under the New Scheme were exercised, result in the issues of 1,700,000 additional ordinary shares of the Company and additional share capital of HK$170,000 and share premium of approximately HK$1,247,000 (before issue expense).

33. RESERVES

Group

	Share premium account HK$'000	Share option reserve HK$'000	Contributed surplus* HK$'000	Asset revaluation reserve HK$'000	Hedging reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds# HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2006	88,797	–	2,800	6,392	(768)	1,815	11,286	15,398	269,018	394,738
Disposal of available-for-sale investments	–	–	–	–	–	(323)	–	–	–	(323)
Changes in fair value of available-for-sale investments	–	–	–	–	–	5,602	–	–	–	5,602
Net loss on cash flow hedges	–	–	–	–	(17)	–	–	–	–	(17)
Asset revaluation surplus	–	–	–	170	–	–	–	–	–	170
Deferred tax debited to equity	–	–	–	(20)	–	–	–	–	–	(20)
Exchange realignment	–	–	–	–	–	–	26,617	–	–	26,617
Total income and expense recognised directly in equity	–	–	–	150	(17)	5,279	26,617	–	–	32,029
Profit for the year	–	–	–	–	–	–	–	–	121,657	121,657
Total income and expense for the year	–	–	–	150	(17)	5,279	26,617	–	121,657	153,686
Share options exercised	7,679	–	–	–	–	–	–	–	–	7,679
Warrants exercised	8,378	–	–	–	–	–	–	–	–	8,378
Costs in the granting of share option	–	6,174	–	–	–	–	–	–	–	6,174
Transferred from retained profits	–	–	–	–	–	–	–	6,906	(6,906)	–
Additional 2005 final dividend upon exercise of share options	–	–	–	–	–	–	–	–	(276)	(276)
Interim 2006 dividend	–	–	–	–	–	–	–	–	(8,799)	(8,799)
Proposed final dividend	–	–	–	–	–	–	–	–	(16,540)	(16,540)
At 31 December 2006	104,854	6,174	2,800	6,542	(785)	7,094	37,903	22,304	358,154	545,040

33. RESERVES (CONTINUED)

Group

	Share premium account HK$'000	Contributed surplus* HK$'000	Asset revaluation reserve HK$'000	Hedging reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds# HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	73,006	2,800	1,924	–	2,854	247	8,039	195,119	283,989
Disposal of available-for-sale investments	–	–	–	–	(96)	–	–	–	(96)
Changes in fair value of available-for-sale investments	–	–	–	–	(943)	–	–	–	(943)
Net loss on cash flow hedges	–	–	–	(768)	–	–	–	–	(768)
Asset revaluation surplus	–	–	6,353	–	–	–	–	–	6,353
Deferred tax debited to equity	–	–	(1,885)	–	–	–	–	–	(1,885)
Exchange realignment	–	–	–	–	–	11,039	–	–	11,039
Total income and expense recognised directly in equity	–	–	4,468	(768)	(1,039)	11,039	–	–	13,700
Profit for the year	–	–	–	–	–	–	–	95,696	95,696
Total income and expense for the year	–	–	4,468	(768)	(1,039)	11,039	–	95,696	109,396
Share options exercised	846	–	–	–	–	–	–	–	846
Warrants exercised	14,945	–	–	–	–	–	–	–	14,945
Transferred from retained profits	–	–	–	–	–	–	7,359	(7,359)	–
Interim 2005 dividend	–	–	–	–	–	–	–	(6,133)	(6,133)
Proposed final dividend	–	–	–	–	–	–	–	(8,305)	(8,305)
At 31 December 2005	88,797	2,800	6,392	(768)	1,815	11,286	15,398	269,018	394,738

* The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

\# Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries in Mainland China has been transferred to reserve funds which are restricted as to use.

33. RESERVES (CONTINUED)

Company

	Share premium account HK$'000	**Contributed surplus** HK$'000	**Share option reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2005	73,006	63,623	–	669	137,298
Share options exercised	846	–	–	–	846
Warrants exercised	14,945	–	–	–	14,945
Profit for the year	–	–	–	18,450	18,450
Interim 2005 dividend	–	–	–	(6,133)	(6,133)
Proposed final dividend	–	–	–	(8,305)	(8,305)
At 31 December 2005 and 1 January 2006	88,797	63,623	–	4,681	157,101
Share options exercised	7,679	–	–	–	7,679
Warrants exercised	8,378	–	–	–	8,378
Profit for the year	–	–	–	35,324	35,324
Costs in the granting of share option	–	–	6,174	–	6,174
Additional 2005 final dividend upon exercise of share options	–	–	–	(276)	(276)
Interim 2005 dividend	–	–	–	(8,799)	(8,799)
Proposed final dividend	–	–	–	(16,540)	(16,540)
	104,854	63,623	6,174	14,390	189,041

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

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 will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

34. CORPORATE GURANTEES

The Company provides guarantees to the extent of HK$953,545,000 (2005: HK$687,900,000) in respect of banking facilities granted to its subsidiaries, and approximately HK$243,202,000 (2005: HK$178,111,000) of which was utilised at the balance sheet date.

35. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and warehouses under operating lease arrangements. Leases for office properties and warehouses are negotiated for terms ranging from one to twenty years.

At the balance sheet date, the Group had total future minimum lease payments under non–cancellable operating leases falling due as follows:

Group

	2006 **HK$'000**	2005 HK$'000
Within one year	**33,197**	11,185
In the second to fifth years, inclusive	**102,127**	21,148
After five years	**201,356**	–
	336,680	32,333

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the balance sheet date:

Group

	2006 **HK$'000**	2005 HK$'000
Contracted, but not provided for:		
Plant and machinery	**13,838**	9,696
Construction in progress	**20,670**	9,296
	34,508	18,992

At the balance sheet date, the Company did not have any significant commitments (2005: Nil).

36. COMMITMENTS (CONTINUED)

In addition, the Group's share of the jointly controlled entities' own capital commitments, which are not included in the above, is as follows:

Group

	2006 **HK$'000**	2005 HK$'000
Contracted, but not provided for	**6,417**	–

37. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following material transactions with its jointly controlled entities:

	2006 **HK$'000**	2005 HK$'000
Purchases of raw materials	**17,263**	14,706
Sale of raw materials	**–**	9,956

The above purchases of raw materials were carried out according to terms similar to those offered by other suppliers, except that a longer credit period was granted. The above sale transactions were carried out in accordance with the Group's pricing policy, and were calculated on a cost–plus basis.

(b) Remuneration for key management personnel (excluding directors, details of whose remuneration are set out in note 8) of the Group:

	2006 **HK$'000**	2005 HK$'000
Salaries and allowances	**7,920**	4,456
Pension scheme contributions	**60**	36
Costs in the granting of share option	**2,988**	–
Total remuneration for key management personnel	**10,968**	4,492

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance leases, 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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are foreign currency risk, cash flow interest rate risk, and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Foreign currency risk

The Group's reporting currency is Hong Kong Dollar and conducts some of its business transactions in other transactional currencies such as United States Dollar, Japanese Yen and Renminbi. Some of its sales proceeds were received in United States Dollar and Renminbi and some of the purchases are conducted in Japanese Yen, Renminbi and United States Dollar. As United States Dollar are closely pegged with Hong Kong Dollar throughout the year under review, so the currency exposure in this respect is considered not significant. About 31% (2005: 22%) of the Group's purchases are denominated in Japanese Yen. Accordingly, the Group uses forward currency contracts to mitigate a proportion of its Japanese Yen exposures with reference to the cash flow forecasts. It is the Group's policy that forward currency contracts were only entered for cash flow hedging purposes. The Group does not speculate on foreign currencies.

At 31 December 2006, the Group had hedged 84% (2005: 93%) of its foreign currency purchases for which firm commitments existed at the balance sheet date, extending to February 2007.

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 floating interest rates. To manage any exposure arising from the changes in market interest rates, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed–upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2005, after taking into account the effect of the interest rate swaps, approximately 14% of the Group's interest–bearing borrowings bore interest at fixed rates. The interest rate swaps expired during the year and no new swap arrangement has been entered into in 2006.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group has entered into credit insurance contracts with the Hong Kong Export Credit Insurance Corporations and other financial institutions to mitigate the credit risk arising from the receivable balances. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts and concentration of credit risks are not significant.

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

39. POST BALANCE SHEET EVENTS

(a) PRC Corporate Income Tax Law

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 to the Group cannot be reasonably estimated at this stage.

(b) Placement and top-up subscriptions of shares

Pursuant to a placing letter signed on 8 March 2007 between Mr. Chan Ho Sing (the "Chairman") and UOB Kay Hian (Hong Kong) Limited (the "Placing Agent"), the Chairman agreed to sell 23,630,000 ordinary shares of HK$0.10 each of the Company which were beneficially owned by him at that time (the "Placing Shares") and the Placing Agent agreed to place the Placing Shares to Credit Suisse (Hong Kong) Limited (the "Investor") at a price of HK$2.03 per share. This placing is conditional upon several events to occur, which include, among other things, that the Chairman will be allotted 23,630,000 new ordinary shares of HK$0.10 each of the Company at a subscription price of HK$2.03 per share. Pursuant to a subscription letter signed on 8 March 2007 between the Chairman and the Company, the Company agreed to issue 23,630,000 ordinary shares of HK$0.10 each to the Chairman at a price of HK$2.03 per share. The placing and subscription were duly completed on 20 March 2007. The net proceed from the placing and subscription received by the Company amounted to HK$46,597,000, which were used by the Company in funding its general working capital requirements for the business expansion.

(c) Proposal for bonus warrant issue

Subsequent to the balance sheet date, on 18 April 2007, the Board proposed a conditional bonus warrant issue to the shareholders of the Company on the basis of one bonus warrant for every ten ordinary shares of HK$0.10 each of the Company. The initial subscription price was determined at HK$2.25 per share, subject to adjustments, and the bonus warrants are exercisable at any time during the period between Wednesday, 6 June 2007 and Friday, 5 June 2009 (both days inclusive).

40. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation and accounting treatment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2007.