

# Notes to the Financial Statements

*For the year ended 31st December, 2005*

## 1. GENERAL

The Company is a public limited company domiciled and incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The address of its registered office is 8/F., Tai Tung Industrial Building, 29-33 Tsing Yi Road, Tsing Yi Island, New Territories, Hong Kong. The principal activities of its principal subsidiaries are set out in note 39.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, certain financial assets and financial liabilities and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (a) Basis of preparation *(continued)*

*The adoption of new / revised HKFRS*

In 2005, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HK(SIC) – Int 12	Scope of HK(SIC) – Int 12 Consolidation – Special Purpose Entities
HK(SIC) – Int 15	Operating Leases – Incentives
HK(SIC) – Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (a) Basis of preparation *(continued)*

*The adoption of new / revised HKFRS (continued)*

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 18, 21, 23, 24, 27, 28, 33 and HK(SIC)-Ints 12 and 15 and HKFRS 2 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in these financial statements, including the following:
  - minority interests are now presented in the consolidated income statement and within the equity in the consolidated balance sheet separately from results/equity attributable to equity holders of the Company;
  - taxes of associates attributable to the Group, which were previously included in tax charge in the consolidated income statement, are now included in the Group's share of profits and losses of associates; and
  - the Group is no longer permitted to not disclose comparative information for movements in property, plant and equipment.
- HKASs 2, 7, 8, 10, 16, 18, 23, 27, 28, 33 and HK(SIC) – Ints 12 and 15 and HKFRS 2 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In case, the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation and any accumulated impairment losses. In prior years, the leasehold land and land use rights were accounted for at fair value or cost less accumulated depreciation and any accumulated impairment. The new accounting policy has been applied retrospectively to the extent that results in the reclassification of certain leasehold interest in land and land use rights previously included in "Property, plant and equipment" as "Leasehold land and land use rights" with comparatives restated to conform to the current year's presentation.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (a) Basis of preparation *(continued)*

*The adoption of new / revised HKFRS (continued)*

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Until 31st December 2004 investments of the Group were classified into long term investments and/or short term investments, which were stated in the balance sheet at cost less any accumulated impairment losses and at fair value, respectively, and any impairment losses on long term investments and changes in fair value of the short term investments were recognised in the income statement in the period in which they arise.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets and financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheet, except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. In addition, all the investments as at 31st December 2004 that should be measured at fair value on adoption of HKAS 39 should be remeasured at 1st January 2005 and any adjustment of the previous carrying amount should be recognised as an adjustment of the balance of retained profits at 1st January 2005. However the adoption of HKAS 39 has had no material effect on the Group's results and equity.

The effect of the changes in accounting policies on these financial statements as a result of the adoption of HKAS 32 and HKAS 39 is summarised as follows:

All investment securities of the Group and the Company as at 31st December 2004 were redesignated into available-for-sale financial assets on 1st January 2005. The aggregate differences between the respective carrying value of each investment as at 31st December 2004 and the respective fair value at 1st January 2005 is insignificant and hence, no adjustment has been made against the retained profits at 1st January 2005.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement. However, since the Group has continued to adopt the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained profits as at 1st January 2005, including the reclassification of any amount held in revaluation surplus for investment property.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (a) Basis of preparation *(continued)*

*The adoption of new / revised HKFRS (continued)*

In addition, in prior years land (including leasehold land) which the Group held for an undetermined future purpose was accounted for under the valuation model in SSAP 17 "Property, plant and equipment", whereby the land was carried at fair value, with any movements in the fair value of the land being normally taken to the land and buildings revaluation reserve, net of deferred tax thereon.

Upon adoption of HKAS 40 as from 1st January 2005:

All changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40; and land held for an undetermined future purpose is recognised as "investment property" if the property is freehold or, if the property is leasehold, the Group has chosen to recognise such land as investment property rather than as land held under an operating lease. As such, movements in the fair value of land held for an undetermined future purpose are also now recognised directly in the income statement as they arise in accordance with the fair value model.

These changes in accounting policy have been adopted prospectively by increasing the opening balance of retained profits as of 1st January 2005 by HK\$6,772,784 to include all the Group's previous investment properties revaluation reserve and the accumulated surplus held in the Group's land and buildings revaluation reserve in respect of the leasehold land held for an undetermined future use.

This new policy has no significant effect on the Group's profit before taxation for the year ended 31st December 2005 and 2004.

The adoption of revised HK(SIC)-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was:

- Amortised on a straight line basis over a period ranging from 3 to 5 years; and
- Assessed for an indication of impairment at each balance sheet date.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (a) Basis of preparation *(continued)*

*The adoption of new / revised HKFRS (continued)*

In accordance with the provisions of HKFRS 3 (Note 2 (i)):

- The Group ceased amortisation of goodwill from 1st January 2005;
- Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment;
- Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition over the cost of business combination is recognised immediately in the consolidated income statement. In addition, following the transitional provisions of HKFRS 3, the carrying amounts of the negative goodwill recognised on the consolidated balance sheet or remained credited to the consolidated capital reserve as at 1st January 2005 were derecognised by way a corresponding adjustment to the opening retained profits as at 1st January 2005 (Note 18(i)); and
- On disposal of subsidiaries or associates, any attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition is transferred to the consolidated retained profits as a movement in reserves and is not included in the calculation of the gain or loss on disposal.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The adoption of revised HKAS 17 resulted in a decrease in opening reserves at 1st January 2004 by HK\$11,460,978.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Basis of preparation (continued)

The adoption of new / revised HKFRS (continued)

The adoption of revised HKAS 17 also resulted in:

	2005 HK\$	2004 HK\$
Decrease in property, plant and equipment	<b>(59,461,000)</b>	(72,450,000)
Increase in leasehold land and land use rights	<b>38,295,933</b>	47,628,234
Decrease in deferred tax liabilities	<b>2,929,311</b>	4,022,328
	<b>(18,235,756)</b>	(20,799,438)
Increase (Decrease) in retained profits	<b>3,796,465</b>	(503,604)
Decrease in building revaluation reserves	<b>(21,558,892)</b>	(15,424,632)
Decrease in translation reserves	–	(208,983)
Decrease in minority interests	<b>(473,329)</b>	(4,662,219)
	<b>(18,235,756)</b>	(20,799,438)
Decrease in administrative expenses	<b>(717,735)</b>	(963,418)
Increase in other operating expenses	–	1,190,075
Increase (Decrease) in basic earnings per share	<b>0.11 cents</b>	(0.06) cents

The adoption of HK(SIC)-Int 21 resulted in a decrease in opening reserves at 1st January 2004 by HK\$1,833,937.

The adoption of HK(SIC)-Int 21 also resulted in:

	2005 HK\$	2004 HK\$
Increase in deferred tax liabilities	<b>(1,833,937)</b>	(1,833,937)
Decrease in investment properties revaluation reserve	<b>(1,833,937)</b>	(1,833,937)

The adoption of revised HKFRS 3 resulted in an increase in opening reserves at 1st January 2005 by HK\$1,175,170.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (a) Basis of preparation *(continued)*

*The adoption of new / revised HKFRS (continued)*

The adoption of HKFRS 3 also resulted in:

	2005 HK\$	2004 HK\$
Increase in retained profits	1,175,170	–
Increase in intangible assets	1,175,170	–

There was no impact on basic earnings per share from the adoption of HKAS 39.

#### (b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

##### (i) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2(i)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (b) Basis of consolidation *(continued)*

##### (i) Subsidiaries *(continued)*

In the Company's balance sheet the investments in subsidiaries are stated at cost less any accumulated impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

##### (ii) Associates

Associates are all entities, not being a subsidiary or a jointly controlled entity, over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2(j)).

The Group's share of its associates' post-acquisition results is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less any accumulated impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

#### (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segment operating in other economic environments.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (d) Foreign current translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (e) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are shown at fair value, based on annual valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity, all other decreases are expensed in the income statement.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values (if, there are any) over their estimated useful lives, as follows:

Buildings	40 years or unexpired term of the leases, if shorter
Furniture, fixtures and equipment	5 – 10 years
Plant and machinery	5 – 10 years
Motor vehicles	5 years

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

Construction in progress represents buildings, structures, plant and machinery and other fixed assets under construction or installation and is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of fixed assets or investment properties when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(j)).

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (f) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the international Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property, others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (f) Investment properties *(continued)*

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising from the retirement or disposal of investment property, calculated as the difference between the net disposal proceeds and the carrying amount of the investment property, is recognised in the income statement in the period of the retirement or disposal.

#### (g) Leasehold land and land use rights

Leasehold land and land use rights are lump sum upfront payments to acquire long-term interest in lessee-occupied properties.

Leasehold land and land use rights relating to buildings of the group are stated at cost and are amortised over the period of the lease on the straight-line basis to the income statement. Leasehold land and land use rights relating to investment properties and properties developed for sale are not amortised and included as part of the cost of such properties.

#### (h) 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. 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.

#### (i) Intangible assets

##### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in investments in associates and jointly controlled entities respectively. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### (k) Investments

From 1st January 2004 to 31st December 2004:

The Group classified its investment in securities, other than subsidiaries and associates as investment securities.

##### *Investment securities*

Investment securities are stated at cost less any impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

From 1st January 2005 onwards:

The Group classified its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

##### (i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (k) Investments *(continued)*

##### *Investment securities (continued)*

##### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2(m)).

##### (iii) Available-for-sale financial assets

Available-for-sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (k) Investments *(continued)*

##### *Investment securities (continued)*

##### (iii) Available-for-sale financial assets *(continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement even though such financial assets have not been derecognised. Impairment losses recognised in the income statement on such equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in income statement.

#### (l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### (m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

#### (n) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within bank and other borrowings in current liabilities on the balance sheet.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (o) Share capital

Ordinary shares are classified as equity.

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

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

#### (p) Bank and other borrowings

Bank and other borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Bank and other borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### (q) 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.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (r) Employee benefits

##### (i) Retirement benefit costs

Payments to defined contribution plans under the mandatory provident fund scheme the ORSO scheme and state-managed retirement benefits scheme are charged as expenses as they fall due.

##### (ii) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### (s) Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

#### (t) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- (i) Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.
- (ii) Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the period of the leases.
- (iii) Commission income, handling and services income are recognised when services are provided.
- (iv) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.
- (v) Dividend income is recognised when the right to receive payment is established prior to the balance sheet date.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (u) Leases

(i) *Operating lease (both as the lessee or the lessor)*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease. Where the Group is the lessor, assets leased by the Group under operating leases are included in non current assets and rentals receivable under the operating leases are credited to the income statement in a straight line basis over the lease period.

(ii) *Finance lease (as the lessee)*

Leases of assets where the Group has substantially obtained all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current bank and other borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at their fair value, while the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful lives of the assets or the lease terms.

#### (v) Dividend distribution

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.

#### (w) Related parties

A party is related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party:
  - (1) controls, is controlled by, or is under common control with, the Group;
  - (2) has an interest in the Group that gives its significant influence over the Group; or
  - (3) has joint control over the Group;

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (w) Related parties *(continued)*

- (ii) the party is a jointly-controlled entity;
- (iii) the party is an associate;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) 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 (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's risk management objectives and policies mainly focus on minimizing the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as follows:

#### (a) Market risk

##### (i) Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments denominated in foreign currencies. The Group's assets and liabilities are primarily denominated in Hong Kong dollars. When seeking to optimise the returns on its funds available for investment, the Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

##### (ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. As the Group's policy is only to invest on such investments by its surplus funds, the exposure may not have significant impact on the Group's financial position. The Group is not exposed to commodity price risk.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### Financial risk factors *(continued)*

(b) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made and services are provided to customers with an appropriate credit history. It also sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available and sufficient bank deposits to meet short term cash requirements.

(d) *Cash flow interest rate risk*

The Group's interest-rate risk arises from long-term borrowings, bank deposits and finance lease obligations. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. The Group's borrowings are based on Prime or HIBOR interest rates. Details of the Group's borrowings are set out in note 29. Bank deposits are primarily short term in nature. In order to manage the cash flow interest rate risk, the Group will repay the corresponding borrowing when it has surplus funds.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### (a) **Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(j). The recoverable amounts of cash-generating units have been determined based on value-in use calculations. These calculations require the use of estimates (Note 18).

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

#### (a) Critical accounting estimates and assumptions *(continued)*

##### (ii) Estimate of fair value of unlisted securities

Certain unlisted securities included in available-for-sale financial assets are stated at cost at the balance sheet date as the Group determines the fair value of such assets closely approximates to the cost. For the unlisted securities valued at fair value, the Group uses the discounted cashflows valuation method and makes assumptions that are based on market conditions existing at each balance sheet date for the determination of the fair value.

##### (iii) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

#### (b) Critical judgements in applying the entity's accounting policies

##### *Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Primary reporting format – Business segments

At 31st December, 2005, the Group is organised on a product basis into five main business segments.

- (1) trading of industrial consumables
- (2) manufacturing of plastic processing products
- (3) manufacturing of machinery
- (4) manufacturing of audio and electronic products
- (5) manufacturing of printed circuit boards.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Primary reporting format – Business segments (continued)

The segment results for the year ended 31st December, 2005 are as follows:

	Industrial consumables	Plastic processing products	Machinery	Audio and electronic products	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
TURNOVER								
External sales	268,286,842	349,706,556	573,929,106	84,535,186	374,270,953	-	-	1,650,728,643
Inter-segment sales	6,997,496	14,702,249	11,054,992	-	-	-	(32,754,737)	-
Total revenue	275,284,338	364,408,805	584,984,098	84,535,186	374,270,953	-	(32,754,737)	1,650,728,643

Inter-segment sales are charged at prevailing market rates.

RESULTS								
Segment results	18,475,049	22,156,951	29,010,580	(17,817,187)	18,762,027	(612,342)	1,274,768	71,249,846
Unallocated corporate expenses								(19,620,651)
Profit from operations								51,629,195
Finance costs								(27,705,346)
Investment income								1,156,065
Loss on disposal of an associate								(163,278)
Share of results of associates		(379,623)	4,906,841			50,856,187		55,383,405
Profit before taxation								80,300,041
Taxation								7,197,785
Profit before minority interests								73,102,256

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Primary reporting format – Business segments (continued)

	Industrial consumables	Plastic processing products	Machinery	Audio and electronic products	Printed circuit boards	Other operations	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS							
Segment assets	144,959,427	285,992,387	924,272,566	48,200,525	218,698,044	41,645,619	1,663,768,568
Interests in associates							176,613,599
Available-for-sale financial assets							7,649,210
Unallocated corporate assets							28,754,253
Consolidated total assets							1,876,785,630
LIABILITIES							
Segment liabilities	58,998,310	67,826,339	301,926,269	15,028,239	137,317,793	16,277,726	597,374,676
Tax payable							11,194,007
Borrowings							387,205,179
Unallocated corporate liabilities							15,799,648
Consolidated total liabilities							1,011,573,510
OTHER INFORMATION							
Addition of goodwill	–	–	767,222	343,361	–	–	1,110,583
Capital additions	247,512	15,483,790	33,504,440	1,417,256	13,534,486	681,693	64,869,177
Depreciation and amortisation	1,024,817	19,701,530	21,270,744	3,329,708	13,588,304	1,556,372	60,471,475
Other non-cash expenses	97,702	348,506	17,546,312	6,026,079	240,000	3,489,119	27,747,718

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Primary reporting format – Business segments (continued)

The segment results for the year ended 31st December, 2004 are as follows:

	Industrial consumables	Plastic processing products	Machinery	Audio and electronic products	Printed circuit boards	Other operations	Eliminations	(As restated) Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
TURNOVER								
External sales	266,707,052	285,238,625	624,674,472	140,204,253	348,862,289	-	-	1,665,686,691
Inter-segment sales	5,145,693	20,407,404	16,691,400	6,523	-	-	(42,251,020)	-
Total revenue	271,852,745	305,646,029	641,365,872	140,210,776	348,862,289	-	(42,251,020)	1,665,686,691

Inter-segment sales are charged at prevailing market rates.

#### RESULTS

Segment results	14,058,419	23,560,476	36,308,543	(7,408,578)	(2,963,750)	(1,311,593)	(2,023,417)	60,220,100
Unallocated corporate expenses								(12,522,256)
Profit from operations								47,697,844
Finance costs								(19,967,833)
Investment income								(606,339)
Gain on partial disposal of interests in subsidiaries			3,561,010					3,561,010
Share of results of associates		(277,147)	7,668,397			27,405,707		34,796,957
Profit before taxation								65,481,639
Taxation								8,933,910
Profit before minority interests								56,547,729

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Primary reporting format – Business segments (continued)

	Industrial consumables	Plastic processing products	Machinery	Audio and electronic products	Printed circuit boards	Other operations	(As restated) Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS							
Segment assets	136,790,702	268,414,322	848,669,065	103,654,187	213,349,527	45,681,139	1,616,558,942
Interests in associates							164,785,287
Investment securities							7,589,720
Unallocated corporate assets							23,240,739
Consolidated total assets							1,812,174,688
LIABILITIES							
Segment liabilities	57,833,504	52,443,152	316,933,985	49,398,567	141,347,130	30,790,272	648,746,610
Tax payable							12,981,901
Borrowings							315,711,644
Unallocated corporate liabilities							14,553,702
Consolidated total liabilities							991,993,857
OTHER INFORMATION							
Addition of goodwill	–	–	1,137,323	399,132	–	–	1,536,455
Capital additions	1,310,278	29,870,355	31,660,590	649,886	32,515,903	656,627	96,663,639
Depreciation and amortisation	994,754	18,631,360	20,632,389	7,009,097	10,752,664	1,494,203	59,514,467
Other non-cash expenses	1,373,692	3,883,186	8,767,469	–	360,000	592,689	14,977,036

#### Secondary reporting format – Geographical segments

The Group's operations are located in Hong Kong, other regions in the People's Republic of China (the "PRC"), other Asia-Pacific countries, Europe and North America. The Group's trading of industrial consumables division is located in Hong Kong and the PRC. The manufacturing of plastic processing products, machinery, audio and electronic products and printed circuit boards divisions are located in the PRC.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

#### Secondary reporting format – Geographical segments *(continued)*

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

	Sales revenue by geographical market	
	(As restated)	
	2005 HK\$	2004 HK\$
Hong Kong	<b>651,796,290</b>	643,730,354
PRC	<b>786,634,856</b>	758,890,886
Other Asia-Pacific countries	<b>81,149,644</b>	85,293,226
Europe	<b>69,774,156</b>	40,686,874
North America	<b>61,373,697</b>	137,085,351
	<b>1,650,728,643</b>	1,665,686,691

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	(As restated)		(As restated)	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Hong Kong	<b>522,870,510</b>	343,291,612	<b>729,375</b>	1,191,192
PRC	<b>1,296,921,735</b>	1,413,613,041	<b>65,250,385</b>	97,008,902
Other Asia-Pacific countries	<b>14,632,737</b>	25,974,996	–	–
North America	<b>19,105,144</b>	19,277,377	–	–
Europe	<b>23,255,504</b>	10,017,662	–	–
	<b>1,876,785,630</b>	1,812,174,688	<b>65,979,760</b>	98,200,094

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 6. TURNOVER, OTHER INCOME AND GAINS, NET

Turnover represents the amounts received and receivable for goods sold to customers, less returns and discounts, during the year. An analysis of the Group's turnover, other income and gains, net is as follows:

	2005 HK\$	(As restated) 2004 HK\$
<b>Turnover</b>		
Sales of goods	<b>1,650,728,643</b>	1,665,686,691
<b>Other income</b>		
Commission income	<b>700,317</b>	483,060
Gross rental income from investment properties	<b>3,188,709</b>	3,376,649
Handling and services income	<b>730,957</b>	854,329
Release of negative goodwill to income	<b>16,449,454</b>	6,755,992
Compensation for disposal of land use rights, net	<b>21,124,419</b>	–
Sundry income	<b>16,970,217</b>	10,915,096
	<b>59,164,073</b>	22,385,126
<b>Gains, net</b>		
Exchange gain	<b>1,038,262</b>	1,084,768
Fair value gains on investment properties	<b>3,503</b>	–
	<b>1,041,765</b>	1,084,768
	<b>60,205,838</b>	23,469,894

### 7. FINANCE COSTS

	2005 HK\$	2004 HK\$
Interest on:		
Borrowings wholly repayable within five years		
– bank loans and overdrafts	<b>24,485,808</b>	17,569,865
– other loans	<b>2,233,998</b>	2,277,832
Finance leases	<b>985,540</b>	120,136
	<b>27,705,346</b>	19,967,833

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 8. INVESTMENT INCOME (DEFICIT)

	2005 HK\$	2004 HK\$
Interest income	1,009,617	760,803
Dividends received and receivable from unlisted investments	146,448	110,266
Loss on disposal of investment securities	–	(1,477,408)
	<b>1,156,065</b>	(606,339)

### 9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging and crediting the following:

	2005 HK\$	2004 HK\$ (As restated)
Charging:		
Staff costs		
Directors' remuneration (note 10)	12,181,425	9,169,158
Salaries and other benefits	198,928,570	188,729,246
Retirement benefits scheme contributions	7,847,566	7,271,625
	<b>218,957,561</b>	205,170,029
Depreciation and amortisation on:		
– Owned assets	53,910,101	52,683,780
– Assets held under finance leases	5,499,027	3,720,610
– Leasehold land and land use rights (note 17)	1,062,347	1,271,319
Amortisation of goodwill (included in share of results of associates)	–	78,181
Amortisation of goodwill (included in other operating expenses)	–	1,760,577
Impairment losses on goodwill (included in other operating expenses)	2,455,958	–
Auditors' remuneration		
– Current year	1,679,991	1,714,827
– Overprovided in prior years	(108,140)	(204,000)
Loss on disposal of property, plant and equipment	4,597,514	444,501
Operating lease payments (note 33)	12,381,500	14,134,812
Impairment losses for bad and doubtful debts	20,306,525	12,502,318
Revaluation deficit on leasehold buildings	186,250	632,034
Write-down of inventories	7,753,318	1,397,903
Share of associates' taxation	5,618,447	4,573,682
and crediting:		
Rental income net of outgoings	2,783,556	2,869,478

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

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

Name of directors	Directors' fees HK\$	Salaries and allowances HK\$	Retirement	2005 Total HK\$	2004 Total HK\$
			scheme contributions HK\$		
Mr. Tang To	2,497,481	1,092,000	146,812	<b>3,736,293</b>	2,940,099
Mr. Wong Yiu Ming	2,412,981	1,225,900	150,142	<b>3,789,023</b>	2,937,319
Mr. Zhao Zhuoying	40,000	–	–	<b>40,000</b>	40,000
Mr. Yan Wing Fai	1,268,074	800,000	12,000	<b>2,080,074</b>	1,196,188
Mr. Li Tin Loi	12,000	1,347,400	77,205	<b>1,436,605</b>	1,026,122
Mr. Zhou Junqing#	–	–	–	–	–
Mr. Tang Kwan	40,000	680,400	51,030	<b>771,430</b>	771,430
Mr. Kan Wai Wah	40,000	–	–	<b>40,000</b>	40,000
Mr. He Zhiqi	40,000	–	–	<b>40,000</b>	40,000
Mr. Shi Shanbo#	–	–	–	–	–
Mr. Liang Shangli *	40,000	–	–	<b>40,000</b>	40,000
Mr. Yip Jeffery *	40,000	–	–	<b>40,000</b>	40,000
Miss. Yeung Shuk Fan *	168,000	–	–	<b>168,000</b>	98,000
Total 2005	6,598,536	5,145,700	437,189	<b>12,181,425</b>	9,169,158
Total 2004	338,000	8,439,675	391,483		

\* Independent Non-executive Directors

# Resigned on 22nd March 2004

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

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

#### (b) Employees' emoluments

The five highest paid individuals included four (2004: four) directors, details of whose emoluments are set out above. The emoluments of the remaining one (2004: one) individual are as follows:

	2005 HK\$	2004 HK\$
Salaries and other benefits	2,396,360	2,224,300
Retirement benefits schemes contributions	45,900	36,750
	<b>2,442,260</b>	2,261,050

### 11. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2005 HK\$	(As restated) 2004 HK\$
Hong Kong Profits Tax		
Current year	1,494,083	1,432,913
Underprovision in prior years	1,003,805	62,867
	<b>2,497,888</b>	1,495,780
Taxation outside Hong Kong	<b>5,295,076</b>	7,852,446
Deferred taxation relating to the origination and reversal of temporary differences <i>(note 31)</i>	<b>(595,179)</b>	(414,316)
Taxation charge	<b>7,197,785</b>	8,933,910

In accordance with the presentation requirements of HKAS 1 adopted by the Group during the year as detailed in note 2(a) to the financial statements, taxes of associates attributable to the Group, which were previously included in taxation charge on the consolidated income statement, are now included in the share of profits and losses of associates. The comparative amounts for the year ended 31st December 2004 have been restated to conform to the current year's presentation.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 11. TAXATION (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the domestic taxation rates applicable to profits of the consolidated companies as follows:

	2005 HK\$	(As restated) 2004 HK\$
Profit before taxation	<b>80,300,041</b>	65,481,639
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	<b>14,052,507</b>	11,459,287
Tax effect of expenses that are not deductible in determining taxable profit	<b>28,778,782</b>	11,378,755
Tax effect of income that is not taxable in determining taxable profit	<b>(37,767,091)</b>	(11,256,339)
Underprovision of Hong Kong Profits Tax in prior years	<b>1,003,801</b>	62,867
Underprovision of overseas tax in prior years	–	83,254
Tax effect of tax losses not recognised	<b>8,945,518</b>	5,577,135
Tax effect of temporary differences not recognised	<b>733,235</b>	–
Tax effect of utilisation of tax losses not previously recognised	<b>(2,926,536)</b>	(1,793,230)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(5,622,431)</b>	(6,577,819)
Taxation charge	<b>7,197,785</b>	8,933,910

### 12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of loss of HK\$25,543,295 (2004: Loss of HK\$17,987,691).

### 13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to the equity holders of the Company of HK\$54,221,555 (2004: HK\$41,460,022, as restated) and on the weighted average number of shares in issue during the year of 706,856,278 (2004: 706,228,857).

The adjustment to the comparative basic earnings per share, arising from the adoption of HKAS 17 and HK(SIC)-Int 21 is as follows:

	HK cents
Reconciliation of 2004 earnings per share:	
Reported figure before adjustments	5.93
Adjustments arising from adoption of HKAS 17 and HK(SIC)-Int 21	(0.06)
As restated	5.87

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 14. DIVIDENDS

	2005 HK\$	2004 HK\$
Dividend proposed after the balance sheet date of HK\$0.015 (2004: HK\$0.01) per share	<b>10,612,840</b>	7,062,289

### 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK\$	Furniture, fixtures and equipment HK\$	Plant and machinery HK\$	Motor vehicles HK\$	Properties under construction HK\$	Total HK\$
<b>THE GROUP</b>						
COST OR VALUATION						
At 1st January, 2004						
As previously reported	180,530,000	127,116,422	421,437,690	38,491,712	28,124,629	795,700,453
Effect of adopting HKAS 17	(64,030,000)	-	-	-	(3,726,445)	(67,756,445)
As restated	116,500,000	127,116,422	421,437,690	38,491,712	24,398,184	727,944,008
Currency realignment	138,122	156,227	615,457	75,056	(113,781)	871,081
Reclassifications	17,216,383	5,629,856	5,488,493	5,717	(28,340,449)	-
Additions, as restated	1,391,516	14,686,332	41,834,449	6,689,593	32,061,749	96,663,639
Disposals, as restated	(601,907)	(1,911,457)	(12,065,317)	(4,374,308)	(2,314,834)	(21,267,823)
Adjustment on revaluation	(2,304,114)	-	-	-	-	(2,304,114)
At 31st December, 2004	132,340,000	145,677,380	457,310,772	40,887,770	25,690,869	801,906,791
As 1st January, 2005	132,340,000	145,677,380	457,310,772	40,887,770	25,690,869	801,906,791
Currency realignment	1,629,842	1,624,513	4,880,621	647,142	521,908	9,304,026
Reclassifications	19,098,601	473,174	10,434,006	100,865	(30,886,646)	(780,000)
Additions	2,029,007	9,883,016	30,504,785	3,989,417	18,462,952	64,869,177
Disposals	(27,792,171)	(16,409,308)	(66,391,526)	(5,593,051)	(2,158,501)	(118,344,557)
Adjustment on revaluation	(506,279)	-	-	-	-	(506,279)
At 31st December, 2005	126,799,000	141,248,775	436,738,658	40,032,143	11,630,582	756,449,158
Analysis of cost or valuation:						
At 31st December, 2005						
At cost	-	141,248,775	436,738,658	40,032,143	11,630,582	629,650,158
At valuation – 2005	126,799,000	-	-	-	-	126,799,000
	126,799,000	141,248,775	436,738,658	40,032,143	11,630,582	756,449,158
At 31st December, 2004						
At cost	-	145,677,380	457,310,772	40,887,770	25,690,869	669,566,791
At valuation – 2004	132,340,000	-	-	-	-	132,340,000
	132,340,000	145,677,380	457,310,772	40,887,770	25,690,869	801,906,791

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold buildings	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Properties under construction	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>THE GROUP</b>						
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	–	78,652,503	280,449,993	23,940,305	–	383,042,801
Currency realignment	(3,775)	62,036	257,229	33,706	–	349,196
Depreciation provided for the year, as restated	4,768,089	11,954,001	35,293,051	4,389,249	–	56,404,390
Reclassifications	–	36,575	(37,037)	462	–	–
Disposals, as restated	(274,860)	(1,150,857)	(6,774,411)	(3,363,474)	–	(11,563,602)
Eliminated on revaluation	(4,489,454)	–	–	–	–	(4,489,454)
At 31st December, 2004	–	89,554,258	309,188,825	25,000,248	–	423,743,331
As 1st January, 2005	–	89,554,258	309,188,825	25,000,248	–	423,743,331
Currency realignment	51,513	555,384	2,715,826	380,857	–	3,703,580
Depreciation provided for the year	5,226,450	13,518,571	35,594,675	5,069,432	–	59,409,128
Reclassifications	–	92,912	(92,912)	–	–	–
Disposals	(12,171)	(13,852,465)	(59,240,639)	(4,221,415)	–	(77,326,690)
Eliminated on revaluation	(5,265,792)	–	–	–	–	(5,265,792)
At 31st December, 2005	–	89,868,660	288,165,775	26,229,122	–	404,263,557
NET BOOK VALUES						
At 31st December, 2005	126,799,000	51,380,115	148,572,883	13,803,021	11,630,582	352,185,601
At 31st December, 2004, as restated	132,340,000	56,123,122	148,121,947	15,887,522	25,690,869	378,163,460

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The net book value of leasehold buildings held by the Group comprises:

	2005 HK\$	2004 HK\$
In Hong Kong:		
– under medium-term leases	<b>2,429,000</b>	2,620,000
Outside Hong Kong:		
– under long leases	<b>31,330,000</b>	30,790,000
– under medium-term leases	<b>93,040,000</b>	98,930,000
	<b>126,799,000</b>	132,340,000

The leasehold buildings of the Group were revalued as at 31st December, 2004 and 31st December, 2005 on the open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers. The (surplus) deficit arising on revaluation attributable to the Group have been (credited) charged to the buildings revaluation reserve and the consolidated income statement respectively.

Depreciation expense of HK\$44,535,041 (2004: HK\$39,890,223) has been expensed in cost of goods sold, HK\$2,828,847 (2004: HK\$1,652,315) in selling and distribution costs and HK\$12,045,240 (2004: HK\$14,861,852) in administrative expenses.

Had leasehold buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of leasehold buildings would have been approximately HK\$93,695,887 (2004: HK\$93,899,910, as restated).

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 15. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of the Group's plant and machinery includes an amount of HK\$18,269,901 (2004: HK\$11,490,321) in respect of assets held under finance leases.

	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$	HK\$	HK\$
<b>THE COMPANY</b>			
COST			
At 1st January, 2004	9,153,727	417,111	9,570,838
Additions	118,806	537,821	656,627
Disposals	–	(417,111)	(417,111)
At 31st December, 2004	9,272,533	537,821	9,810,354
At 1st January, 2005	9,272,533	537,821	9,810,354
Additions	681,693	–	681,693
At 31st December, 2005	9,954,226	537,821	10,492,047
ACCUMULATED DEPRECIATION			
At 1st January, 2004	5,204,934	417,110	5,622,044
Depreciation provided for the year	885,195	107,564	992,759
Disposals	–	(417,110)	(417,110)
At 31st December, 2004	6,090,129	107,564	6,197,693
At 1st January, 2005	6,090,129	107,564	6,197,693
Depreciation provided for the year	953,364	107,565	1,060,929
At 31st December, 2005	7,043,493	215,129	7,258,622
NET BOOK VALUES			
At 31st December, 2005	2,910,733	322,692	3,233,425
At 31st December, 2004	3,182,404	430,257	3,612,661

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 16. INVESTMENT PROPERTIES

	THE GROUP	
	2005 HK\$	2004 HK\$
Beginning of the year	<b>24,400,000</b>	24,400,000
Reclassified from leasehold land	<b>3,846,497</b>	–
Reclassified from buildings	<b>780,000</b>	–
Fair value gains	<b>3,503</b>	–
End of the year	<b>29,030,000</b>	24,400,000

The investment properties of the Group are situated in Hong Kong and also the People's Republic of China and held under medium-term leases. They are held for rental purposes under operating leases. The investment properties of the Group were revalued as at 31st December, 2005 on the open market existing use basis by Messrs. Knight Frank, an independent firm of professional valuers.

Certain of the Group's investment properties with an aggregate carrying value of HK\$13,500,000 (2004: HK\$13,500,000) were pledged to secure certain bank borrowings granted to the Group (Note 37).

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 17. LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP	
	2005 HK\$	2004 HK\$
<b>Cost</b>		
At beginning of the year as previously reported	–	–
Effect of adopting HKAS 17	<b>61,592,363</b>	61,553,079
As restated	<b>61,592,363</b>	61,553,079
Currency realignment	<b>412,139</b>	39,284
Reclassified to investment properties	<b>(4,877,861)</b>	–
Disposal	<b>(5,769,835)</b>	–
At end of the year	<b>51,356,806</b>	61,592,363
<b>Accumulated amortisation</b>		
At beginning of the year as previously reported	–	–
Effect of adopting HKAS 17	<b>13,964,129</b>	12,684,387
As restated	<b>13,964,129</b>	12,684,387
Currency realignment	<b>86,895</b>	8,423
Amortisation for the year	<b>1,062,347</b>	1,271,319
Reclassified to investment properties	<b>(1,031,364)</b>	–
Disposal	<b>(1,021,134)</b>	–
At end of the year	<b>13,060,873</b>	13,964,129
<b>Net book value</b>		
At end of the year	<b>38,295,933</b>	47,628,234
Portion classified as current assets	<b>1,062,347</b>	1,271,319
Long term portion	<b>37,233,586</b>	46,356,915
At beginning of the year (as restated)	<b>47,628,234</b>	48,868,692

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 17. LEASEHOLD LAND AND LAND USE RIGHTS (continued)

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
In Hong Kong held on:		
Leases of over 50 years	–	–
Leases of between 10 to 50 years	<b>14,867,304</b>	15,243,472
Outside Hong Kong held on:		
Leases of over 50 years	<b>7,894,919</b>	8,555,542
Leases of between 10 to 50 years	<b>15,533,710</b>	23,829,220
	<b>38,295,933</b>	47,628,234

Bank borrowings are secured on land for the carrying value of HK\$12,266,025 (2004: HK\$8,218,452) (Note 37).

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 18. INTANGIBLE ASSETS

	Goodwill HK\$	Negative goodwill HK\$	Total HK\$
<b>THE GROUP</b>			
<b>Cost</b>			
At 1st January, 2004	23,352,393	(30,845,729)	(7,493,336)
Arising on acquisition of additional interests in subsidiaries during the year	1,145,550	(7,138,191)	(5,992,641)
At 31st December, 2004	24,497,943	(37,983,920)	(13,485,977)
At 1st January, 2005			
As previously reported per above	24,497,943	(37,983,920)	(13,485,977)
Effect of adopting HKFRS 3	(23,152,568)	37,983,920	14,831,352
As restated	1,345,375	–	1,345,375
Acquisition of minority interests	1,110,583	–	1,110,583
At 31st December, 2005	2,455,958	–	2,455,958
<b>Accumulated amortisation/(recognition as income)</b>			
At 1st January, 2004	21,391,991	(30,052,758)	(8,660,767)
Amortisation provided/(recognition as income) for the year	1,760,577	(6,755,992)	(4,995,415)
At 31st December, 2004	23,152,568	(36,808,750)	(13,656,182)
At 1st January, 2005			
As previously reported per above	23,152,568	(36,808,750)	(13,656,182)
Effect of adopting HKFRS 3	(23,152,568)	36,808,750	13,656,182
As restated	–	–	–
Impairment losses	2,455,958	–	2,455,958
At 31st December, 2005	2,455,958	–	2,455,958
<b>Net book value</b>			
At 31st December, 2005	–	–	–
At 31st December, 2004	1,345,375	(1,175,170)	170,205

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 18. INTANGIBLE ASSETS *(continued)*

(i) As detailed in note 2(a) to the financial statements, on the adoption of HKFRS 3 during the year:

- the Group ceased amortisation of goodwill from 1st January 2005;
- accumulated amortisation of goodwill arising on the acquisition of subsidiaries and minority interests of HK\$23,152,568 as at 1st January 2005 has been eliminated with a corresponding decrease in the cost of goodwill as at 1st January 2005;
- from the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment; and
- following the transitional provisions of HKFRS 3, the carrying amount of the negative goodwill recognised on the consolidated balance sheet of HK\$1,175,170 as at 1st January 2005 were derecognised by way of an adjustment to the opening retained profits as at 1st January 2005 of HK\$1,175,170.

#### (ii) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

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

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$	2004 HK\$
Unlisted shares/capital contributions, at cost less impairment losses	40,781,145	40,781,145
Amounts due from subsidiaries less impairment losses	579,541,547	576,649,383
	<b>620,322,692</b>	617,430,528

Details of the Company's principal subsidiaries at 31st December, 2005 are set out in note 39.

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months of the balance sheet date and are accordingly classified as non-current.

### 20. INTERESTS IN ASSOCIATES

	THE COMPANY	
	2005 HK\$	2004 HK\$
<b>THE GROUP</b>		
Share of net assets	166,380,613	147,788,046
Amounts due from associates less impairment losses	10,232,986	16,997,241
	<b>176,613,599</b>	164,785,287
<b>THE COMPANY</b>		
Unlisted shares, at cost	–	–
Amounts due from associates less impairment losses	1,383,391	2,003,003
	<b>1,383,391</b>	2,003,003

(a) Amounts due from associates are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months of the balance sheet date and are accordingly classified as non-current.

(b) Interests in associates at 31st December, 2005 include goodwill of HK\$312,724 (2004: HK\$312,724).

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 20. INTERESTS IN ASSOCIATES (continued)

Details of the principal associates of the Group at 31st December, 2005 are as follows:

Name of associate	Place of incorporation/ registration and operation	Proportion of nominal value of issued share capital/registered capital attributable to the Group %	Principal activities
Dalian Huada Plastics Co Ltd	PRC	30.00	Plastic processing
Shenzhen Hao Ning Da Meters Manufacturing Company Limited	PRC	42.00	Manufacturing and trading of electronic meters
Suzhou Sanguang Science & Technology Co., Ltd.	PRC	30.00	Manufacturing of industrial machinery, equipment and supplies

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

Summarised financial information in respect of the Group's associates is set out below:

	2005 HK\$	2004 HK\$
Total assets	<b>465,132,490</b>	393,464,649
Total liabilities	<b>265,412,585</b>	208,977,783
Net assets	<b>199,719,905</b>	184,486,866
Group's share of associates' net assets	<b>166,380,613</b>	147,788,046
Revenue	<b>342,706,443</b>	331,565,541
Profit for the year	<b>87,391,039</b>	61,305,840
Group's share of associates' profit the year	<b>55,383,405</b>	34,796,957

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 21. AVAILABLE-FOR SALE FINANCIAL ASSETS

	THE GROUP 2005 HK\$	THE COMPANY 2005 HK\$
Beginning of the year	7,589,720	4,579,544
Revaluation surplus transfer to equity (Note 28)	59,490	–
End of the year	7,649,210	4,579,544
Less: non-current portion	7,649,210	4,579,544
Current portion	–	–

There were no impairment provisions on available-for-sale financial assets in 2005.

Available-for-sale financial assets include the following:

	THE GROUP 2005 HK\$	THE COMPANY 2005 HK\$
Unlisted securities, at cost	9,504,189	4,579,544
Impairment losses	(2,071,789)	–
Listed securities, at market value	7,432,400	4,579,544
Equity securities – Japan	216,810	–
	7,649,210	4,579,544

Unlisted securities of the Group are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price on active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 22. INVESTMENT SECURITIES

	THE GROUP 2004 HK\$	THE COMPANY 2004 HK\$
Unlisted investment securities, at cost	9,504,189	4,579,544
Listed investment securities, at cost	157,320	–
Impairment losses	(2,071,789)	–
	<b>7,589,720</b>	<b>4,579,544</b>

### 23. INVENTORIES

	THE GROUP	
	2005 HK\$	2004 HK\$
Trading inventories and finished goods	<b>178,713,068</b>	189,141,830
Work in progress	<b>97,196,190</b>	83,996,016
Raw materials	<b>239,170,642</b>	206,289,943
	<b>515,079,900</b>	479,427,789

At 31st December 2005 the carrying amount of inventories that were carried at fair value less costs to sell amounted to HK\$440,377,649 (2004: HK\$388,359,333).

### 24. TRADE AND OTHER RECEIVABLES

The carrying amounts of trade and other receivables are as follows:

	THE GROUP	
	2005 HK\$	2004 HK\$
Trade receivables	<b>458,229,592</b>	476,722,571
Other receivables	<b>127,897,236</b>	81,841,342
Loans to related parties (Note 38)	<b>955,452</b>	13,026,007
	<b>587,082,280</b>	571,589,920

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair values.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 24. TRADE AND OTHER RECEIVABLES (continued)

The Group allows an average credit period of 90 days to 120 days for customers. As at 31st December 2005 and 31st December 2004, the ageing analysis of the trade receivables is as follows:

	THE GROUP	
	2005 HK\$	2004 HK\$
0 to 3 months	<b>313,130,873</b>	327,431,607
4 to 6 months	<b>53,587,512</b>	50,976,608
7 to 9 months	<b>26,877,786</b>	29,665,864
Over 9 months	<b>64,633,421</b>	68,648,492
	<b>458,229,592</b>	476,722,571

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
United States Dollars	<b>5,685,053</b>	7,715,403	-	-
Renminbi	<b>348,240,105</b>	338,983,716	-	-
Japanese Yen	<b>25,935,525</b>	18,802,041	-	-

### 25. TRADE AND OTHER PAYABLES

	THE GROUP	
	2005 HK\$	2004 HK\$
Trade payables	<b>322,829,298</b>	323,783,270
Accruals and other payables	<b>163,503,784</b>	140,432,826
Amounts due to related parties (Note 38)	<b>12,074,521</b>	26,085,734
	<b>498,407,603</b>	490,301,830

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 25. TRADE AND OTHER PAYABLES (continued)

The aged analysis of the Group's trade payables at the balance sheet date is as follows:

	THE GROUP	
	2005 HK\$	2004 HK\$
0 to 3 months	<b>254,577,445</b>	249,729,334
4 to 6 months	<b>38,127,124</b>	41,617,321
7 to 9 months	<b>11,699,548</b>	8,304,796
Over 9 months	<b>18,425,181</b>	24,131,819
	<b>322,829,298</b>	323,783,270

The directors consider that the carrying amount of trade payables approximates to their fair value.

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
United States Dollars	<b>1,465,732</b>	1,141,396	-	-
Renminbi	<b>294,121,320</b>	291,217,394	-	-
Japanese Yen	<b>121,141,903</b>	4,073,159	-	-

### 26. CASH AND CASH EQUIVALENTS

	THE GROUP		THE COMPANY	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Bank balances and cash	<b>116,814,933</b>	102,399,361	<b>216,363</b>	691,524

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 26. CASH AND CASH EQUIVALENTS (continued)

Included in cash and cash equivalent in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
United States Dollars	1,753,945	943,528	21,386	58,042
Renminbi	95,991,080	88,071,417	–	–
Japanese Yen	15,937,976	16,588,952	–	–

Cash and cash equivalents include the following for the purposes of the cash flow statement.

	THE GROUP	
	2005 HK\$	2004 HK\$
Bank balances and cash per above	116,814,933	102,399,361
Bank overdrafts (Note 29)	(37,005,031)	(18,531,989)
	<b>79,809,902</b>	<b>83,867,372</b>

### 27. SHARE CAPITAL

	Number of ordinary shares	Value HK\$
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	1,000,000,000	400,000,000
Issued and fully paid:		
At 1st January, 2004	642,026,234	256,810,494
Bonus issue of shares	64,202,623	25,681,049
At 31st December, 2004	706,228,857	282,491,543
Issue of shares	1,293,835	517,534
At 31st December, 2005	707,522,692	283,009,077

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 27. SHARE CAPITAL (continued)

On 7th July, 2005, 1,293,835 shares of HK\$0.4 each were allotted and issued to shareholders who had not submitted the forms of election or had submitted the forms of election to receive part only of the final dividend in cash for the 2004 final dividends pursuant to the scrip dividend scheme announced by the Company on 14th June, 2005. These shares rank pari passu in all respects with other shares in issue.

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

### 28. OTHER RESERVES

#### THE GROUP

	Buildings revaluation HK\$	Investment properties revaluation HK\$	Translation HK\$	Other HK\$	Total HK\$
<b>Balance at 1st January, 2004,</b> as previously reported	32,299,586	8,606,721	(1,433,498)	–	39,472,809
Reversal of deferred taxation for leasehold land	2,406,878	–	–	–	2,406,878
Reversal of revaluation reserve for leasehold land	(13,753,589)	–	–	–	(13,753,589)
Deferred tax arising from revaluation of investment properties	–	(1,833,937)	–	–	(1,833,937)
<b>Balance at 1st January 2004,</b> as restated	20,952,875	6,772,784	(1,433,498)	–	26,292,161
Revaluation surplus	2,041,748	–	–	–	2,041,748
Realised on partial disposal of interests in subsidiaries	–	–	(280,369)	–	(280,369)
Currency translation differences	–	–	892,167	–	892,167
<b>Balance at 31st December, 2004</b>	22,994,623	6,772,784	(821,700)	–	28,945,707
Opening adjustment for the adoption of HKAS 40	–	(6,772,784)	–	–	(6,772,784)
<b>Balance at 1st January, 2005,</b> as restated	22,994,623	–	(821,700)	–	22,172,923
Fair value gains:					
– Available-for-sale financial assets	–	–	–	59,490	59,490
Revaluation surplus	4,947,148	–	–	–	4,947,148
Realised on disposal of properties	(10,716,962)	–	–	–	(10,716,962)
Realised on disposal of interest in an associate	–	–	(6,721)	–	(6,721)
Share of changes in equity of associates	–	–	1,737,749	–	1,737,749
Currency translation differences	–	–	7,083,757	–	7,083,757
<b>Balance at 31st December, 2005</b>	17,224,809	–	7,993,085	59,490	25,277,384

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 28. OTHER RESERVES (continued)

#### THE GROUP AND THE COMPANY

	Share premium HK\$
At 1st January, 2004	267,159,838
Bonus issue of shares	(25,681,049)
	<hr/>
At 31st December, 2004 and 31st December, 2005	241,478,789

#### THE COMPANY

	Retained profits HK\$	Proposed dividend HK\$	Total HK\$
At 1st January, 2004	74,720,034	–	74,720,034
Loss for the year	(17,987,691)	–	(17,987,691)
Proposed dividend	(7,062,289)	7,062,289	–
	<hr/>		
At 31st December, 2004	49,670,054	7,062,289	56,732,343
Loss for the year	(25,543,295)	–	(25,543,295)
Dividend relating to 2004	–	(7,062,289)	(7,062,289)
Proposed dividend	(10,612,840)	10,612,840	–
	<hr/>		
At 31st December, 2005	13,513,919	10,612,840	24,126,759

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 29. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
<b>Non-current</b>				
Bank borrowings				
– secured	<b>18,319,894</b>	40,598,134	–	–
– unsecured	<b>2,820,181</b>	6,489,418	–	–
	<b>21,140,075</b>	47,087,552	–	–
Other loans				
– secured	–	98,132	–	–
– unsecured	<b>124,880</b>	122,180	–	–
	<b>124,880</b>	220,312	–	–
	<b>21,264,955</b>	47,307,864	–	–
<b>Current</b>				
Bank borrowings				
– secured	<b>113,503,985</b>	107,220,893	–	–
– unsecured	<b>200,654,880</b>	135,987,038	<b>10,000,000</b>	10,000,000
Bank overdrafts (note 26)				
– secured	<b>21,599,148</b>	8,793,200	<b>13,239,518</b>	6,472,524
– unsecured	<b>15,405,883</b>	9,738,789	<b>4,974,214</b>	4,908,654
	<b>351,163,896</b>	261,739,920	<b>28,213,732</b>	21,381,178
Other loans				
– secured	<b>90,591</b>	254,713	–	–
	<b>351,254,487</b>	261,994,633	<b>28,213,732</b>	21,381,178
<b>Total borrowings</b>	<b>372,519,442</b>	309,302,497	<b>28,213,732</b>	21,381,178

Bank borrowings and overdrafts are secured by the leasehold land and land use rights, leasehold buildings and investment properties of the Group (Notes 15, 16 and 17). Other loans are secured by plant and machinery.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 29. BANK AND OTHER BORROWINGS (continued)

The maturity of borrowings is as follows:

	THE GROUP		THE COMPANY	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Within one year	<b>351,254,487</b>	261,994,633	<b>28,213,732</b>	21,381,178
Between one and two years	<b>17,617,525</b>	39,452,191	–	–
Between two and five years	<b>3,522,550</b>	7,733,493	–	–
Wholly repayable with five years	<b>372,394,562</b>	309,180,317	<b>28,213,732</b>	21,381,178
Over five years	<b>124,880</b>	122,180	–	–

The effective interest rate as at 31st December 2005 for bank loans repayable within one year is 5.56% p.a. (2004: 5.17% p.a.).

Non-current other loans are not wholly repayable within 5 years and interest free. Current portion of other loan is interest bearing at the rate of 6.59% p.a. (2004: 2.94% p.a.).

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Bank borrowings	<b>21,140,075</b>	47,087,552	<b>18,804,839</b>	42,228,489
Other loans	<b>124,880</b>	220,312	<b>85,156</b>	195,287
	<b>21,264,955</b>	47,307,864	<b>18,889,995</b>	42,423,776

The carrying amounts of short-term borrowings approximate to their fair values.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 29. BANK AND OTHER BORROWINGS (continued)

The carrying amounts of borrowings are denominated in the following currency:

	THE GROUP		THE COMPANY	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Hong Kong dollar	144,679,219	130,507,838	28,213,732	21,381,178
Renminbi	227,840,223	178,794,659	–	–
	<b>372,519,442</b>	309,302,497	<b>28,213,732</b>	21,381,178

The Group has the following undrawn borrowing facilities:

	2005 HK\$	2004 HK\$
Floating rate		
– expiring with one year	<b>140,406,181</b>	147,062,434

The facilities expiring within one year are annual facilities subject to review at various dates during 2006.

### 30. OBLIGATIONS UNDER FINANCE LEASES

#### THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Amounts payable under finance leases:				
Within one year	5,716,170	5,608,933	4,895,625	5,373,852
In the second to fifth year inclusive	10,690,166	1,069,263	9,790,112	1,035,295
	<b>16,406,336</b>	6,678,196	<b>14,685,737</b>	6,409,147
Less: Future finance charges	1,720,599	269,049	N/A	N/A
Present value of lease payments	<b>14,685,737</b>	6,409,147	<b>14,685,737</b>	6,409,147
Less: Amount due for settlement within one year shown under current liabilities			4,895,625	5,373,852
Amount due for settlement after one year			<b>9,790,112</b>	1,035,295

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 30. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 4 years. For the year ended 31st December, 2005, the average effective borrowing rate was 6.61% (2004: 6.75%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

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

#### THE COMPANY

The Company has no obligations under finance leases for both of the year end dates.

### 31. DEFERRED TAXATION

#### THE GROUP

Deferred taxation is calculated in full on temporary difference under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The following are the major components of deferred tax assets (liabilities) recognised by the Group and movements thereon during the current and prior years:

	Decelerated (accelerated) tax depreciation HK\$	Revaluation of properties HK\$	Tax losses HK\$	Others HK\$	Total HK\$
At 1st January, 2004	(1,664,780)	(4,082,500)	–	10,214,844	4,467,564
Effect of change in accounting policies	–	1,451,423	–	–	1,451,423
At 1st January, 2004, as restated	(1,664,780)	(2,631,077)	–	10,214,844	5,918,987
Exchange differences (Charged) credited to income statement	19,558 1,881,674	(13,939) (1,712,569)	– 159,600	– 85,611	5,619 414,316
At 31st December, 2004 and 1st January, 2005	236,452	(4,357,585)	159,600	10,300,455	6,338,922
Exchange differences Credited to income statement	138,658 404,655	(125,828) –	– 135,394	– 55,130	12,830 595,179
<b>At 31st December, 2005</b>	<b>779,765</b>	<b>(4,483,413)</b>	<b>294,994</b>	<b>10,355,585</b>	<b>6,946,931</b>

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 31. DEFERRED TAXATION (continued)

For the purposes of balance sheet presentation, certain deferred tax assets (liabilities) have been offset in accordance with the conditions set out in HKAS 12. The following is the analysis of the deferred tax balances shown in the consolidated balance sheet:

	<b>2005</b>	As restated
	<b>HK\$</b>	2004
		HK\$
Deferred tax liabilities	<b>(9,536,005)</b>	(9,607,325)
Deferred tax assets	<b>16,482,936</b>	15,946,247
	<b>6,946,931</b>	6,338,922

Deferred tax assets have not been recognised in respect of the following item:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Unused tax losses	<b>254,173,388</b>	238,047,678

The tax losses do not expire under current tax legislation.

Temporary differences arising in connection with interests in associates are insignificant.

#### THE COMPANY

Deferred tax assets have not been recognised in respect of the following item:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Unused tax losses	<b>92,557,774</b>	76,092,361

The tax losses do not expire under current tax legislation.

The Company has no significant unprovided deferred tax liabilities at both year end dates.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 32. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK\$18,269,901 (2004: HK\$6,055,800).

### 33. OPERATING LEASE COMMITMENTS

#### The Group as lessee

	THE GROUP	
	2005 HK\$	2004 HK\$
Minimum lease payments made during the year under operating leases in respect of:		
Land and buildings	<b>11,042,916</b>	12,414,167
Plant and machinery	<b>1,338,584</b>	1,720,645
	<b>12,381,500</b>	14,134,812

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

	THE GROUP	
	2005 HK\$	2004 HK\$
Within one year	<b>12,212,098</b>	11,716,345
In the second to fifth year inclusive	<b>39,496,695</b>	36,057,655
Over five years	<b>65,751,687</b>	71,861,550
	<b>117,460,480</b>	119,635,550

Operating lease payments represent rentals payable by the Group for certain of its office properties, factories and plant and machinery. Leases are negotiated for an average term of 2 -10 years and rentals are fixed for an average of 2 -10 years.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 33. OPERATING LEASE COMMITMENTS (continued)

#### The Group as lessor

Property rental income earned during the year net of outgoings of HK\$405,153 (2004: HK\$507,171), was HK\$2,783,556 (2004: HK\$2,869,478). The remaining properties are expected to generate rental yields of 8.5% (2004: 9.4%) on an ongoing basis. All of the properties held have committed tenants for the next 1 – 3 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease receipts under non-cancellable operating leases:

	THE GROUP	
	2005 HK\$	2004 HK\$
Within one year	2,512,880	1,629,634
In the second to fifth year inclusive	2,202,038	196,692
After five years	38,084	–
	<b>4,753,002</b>	1,826,326

#### THE COMPANY

The Company had no operating lease commitments at both year end dates.

### 34. OTHER COMMITMENTS

	THE GROUP	
	2005 HK\$	2004 HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and equipment	–	9,284,097
Acquisition of leasehold land and buildings	2,791,862	–
Investments	6,256,121	18,841,191
	<b>9,047,983</b>	28,125,288
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment	–	–

The Company had no capital commitments at both year end dates.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 35. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Guarantees given to financial institutions in respect of credit facilities utilised by:				
Subsidiaries	–	–	<b>708,161,811</b>	511,049,811
Outsiders	–	6,109,023	–	–
	–	6,109,023	<b>708,161,811</b>	511,049,811

### 36. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5% to 7.5% of the employee's basic salary, depending on the length of service with the Group.

Employees who are employed by subsidiaries in the PRC are members of the state-managed pension scheme operated by the PRC government. These subsidiaries are required to contribute 10% – 15% of payroll costs to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated income statement of HK\$8,284,755 (2004: HK\$7,663,108) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2005, contributions of approximately HK\$104,285 (2004: HK\$59,491) due in respect of the reporting period had not been paid over to the schemes.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 37. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged by the Group to secure general banking facilities:

	Net book value	
	2005 HK\$	As restated 2004 HK\$
Investment properties	13,500,000	13,500,000
Leasehold buildings	42,036,000	44,980,000
Leasehold land and land use rights	12,266,025	8,218,452
Plant and machinery	66,372,394	67,050,540
Bank deposits	15,208,608	9,097,384
	<b>149,383,027</b>	142,846,376

Note: The bank deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets.

### 38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the year, the Group had significant transactions with the following related parties, together with balances with them as at the balance sheet date, details of which are as follows:

	Notes	2005 HK\$	2004 HK\$
Substantial shareholders and its subsidiaries:			
EDP charges received (note i)		183,600	183,600
Management fee paid (note i)		2,999,389	3,470,766
Balances due from the Group as at the balance sheet date (note iii)	25	5,216,812	5,061,751
Balances due to the Group as at the balance sheet date (note iii)	24	260,417	56,922
Company controlled by certain directors:			
Management fee paid (note i)		996,000	996,000
Minority shareholders:			
Purchases of finished goods (note i)		21,558,904	22,150,864
Rental paid (note i)		2,631,492	2,200,106
Interest paid (note ii)		2,051,728	1,865,207
Balances due from the Group as at the balance sheet date (note iv)	25	6,857,709	21,023,983
Balances due to the Group as at the balance sheet date (note iii)	24	695,035	12,969,085

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES *(continued)*

	2005 HK\$	2004 HK\$
Associates:		
Sales of finished goods <i>(note i)</i>	12,478	10,467
Balances due from the Group as at the balance sheet date <i>(note iii)</i>	9,428,477	13,577,507
Balances due to the Group as at the balance sheet date <i>(note iii)</i>	10,232,986	16,997,241
Key management compensation of the Group:		
Salaries and other short-term employee benefits	12,181,425	9,169,158

*Notes:*

- (i) The prices of the transactions were determined by the directors with reference to prices for similar transactions with unrelated third parties.
- (ii) The interest was charged at 10% (2004: 10%) per annum on the outstanding balances.
- (iii) The balances are unsecured, interest free and have no fixed repayment terms.
- (iv) The balances are unsecured and have no fixed repayment terms. In 2005, all balances are interest free. In 2004, other than an amount of HK\$16,694,624 which bore interest at 10% per annum, the remaining balances were interest free.

Save as disclosed above, there were no other significant transactions with related parties during the year or significant balances with them at the end of the year.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital		Principal activities
				held by the Company*/ subsidiaries %	attributable to the Group %	
Cosmos Machinery Limited	Hong Kong	Hong Kong	HK\$10,000,000	100.00	100.00	Investment holding
Cosmos Machinery International Limited	Hong Kong	Hong Kong	HK\$32,000,000	100.00*	100.00	Trading in industrial machinery, equipment and supplies and investment holding
Dongguan Cosmos Machinery Limited (note b)	PRC	PRC	HK\$30,000,000	75.56	75.56	Manufacturing of industrial machinery
Dongguan Great Wall Optical Plastic Works Limited (note a)	PRC	PRC	HK\$16,126,800	100.00	100.00	Manufacturing of microscopes and magnifiers with acrylic lenses
Dong Hua Machinery Limited (note b)	PRC	PRC	Rmb40,800,000	75.56	75.56	Assembling and trading of machinery
Dongguan Welltec Machinery Limited (note b)	PRC	PRC	HK\$55,920,000	75.56	75.56	Manufacturing and trading of machinery
Gainbase Industrial Limited	Hong Kong	Hong Kong	HK\$10,000	100.00	52.00	Trading in printed circuit boards
Glory Horse Industries Limited	Hong Kong	PRC	HK\$46,765,174	99.29	99.29	Manufacturing, assembling and designing of electronic products
Grand Technology Products Limited	Hong Kong	Hong Kong	HK\$9,500,000	100.00	100.00	Trading of machinery and investment holding

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company*/ attributable to the Group		Principal activities
				Company*/ subsidiaries %	to the Group %	
Great Wall (Holding) Company Limited	Hong Kong	Hong Kong	HK\$9,900,000	100.00	100.00	Investment holding
Jackson Equities Incorporated	British Virgin Islands	Hong Kong	US\$2	100.00	100.00	Investment holding
Karmay Industrial Limited	Hong Kong	Hong Kong	HK\$14,979,444	100.00	100.00	General trading and investment holding
Karmay Plastic Products (Zhuhai) Co., Ltd. (note a)	PRC	PRC	HK\$16,800,000	100.00	100.00	Manufacturing of plastic products
Melco Trading Company Limited	Hong Kong	Hong Kong	HK\$1,500,000	100.00	100.00	Trading in industrial equipment and screws
Ming Sun Enterprises Limited	Hong Kong	Hong Kong	HK\$3,000,000	100.00	100.00	Investment holding
Ming Sun Enterprises (China) Limited	Hong Kong	Hong Kong	HK\$1,000,000	100.00	100.00	Manufacturing of moulds and trading of plasticwares
Shenzhen Gainbase Printed Circuit Board Co., Limited (note b)	PRC	PRC	HK\$29,500,000	100.00	52.00	Manufacturing of printed circuit boards
Welltec Machinery Limited	Hong Kong	Hong Kong	HK\$10,000,000	100.00	100.00	Manufacturing and trading of machinery and investment holding
Wu Xi Grand Tech Machinery Group Co. Ltd. (note b)	PRC	PRC	US\$9,586,000	100.00	100.00	Manufacturing and trading of machinery and investment holding
Wu Xi Grand Plastic Machine Manufacture Co., Ltd. (note b)	PRC	PRC	US\$2,850,000	100.00	100.00	Manufacturing and trading of machinery

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Notes:

- (a) The companies are registered in the form of wholly-owned foreign investment enterprises.
- (b) The companies are registered in the term of sino-foreign cooperative enterprises.

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

None of the subsidiaries had any debt capital in issue at the end of the year or at any time during the year.

### 40. COMPARATIVE AMOUNTS

As further explained in note 2(a) to the financial statements, due to the adoption of HKFRS during the current year, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated. In addition, certain comparative amounts have been reclassified to conform to the current year's presentation.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 41. HONG KONG FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR

The HKICPA has issued the following amendments, new standards and interpretations which are not yet effective as of the date of these financial statements:

	<b>Effective for accounting periods beginning on or after</b>
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1 “Presentation of Financial Statements”	1st January, 2006
– HKAS 27 “Consolidated and Separate Financial Statements”	1st January, 2006
– HKFRS 3 “Business Combinations”	1st January, 2006
Amendments to HKAS 39 “Financial Instruments: Recognition and Measurement”:	
– The fair value option	1st January, 2006
– Financial guarantee contracts	1st January, 2006
Amendments to HKAS 19 “Actuarial gains and losses, group plans and disclosures”	1st January, 2006
Amendments to HKAS 21 “Net investment in a foreign operation”	1st January, 2006
HKFRS-Int 4 “Determining whether an Arrangement contains a Lease”	1st January, 2006
HKFRS 7 “Financial Instruments: Disclosures”	1st January, 2007
Amendments to HKAS 1 “Presentation of Financial Statements: Capital Disclosures”	1st January, 2007

The Group has not early adopted the above standards, interpretations and amendments in the financial statements for the year ended 31st December 2005. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to Group’s accounting policies and presentation of the financial statements will be resulted.